

**THE HUNGARIAN LABOUR MARKET  
REVIEW AND ANALYSIS  
2006**



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### **2006**

**EDITED BY**

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## **FOREWORD BY THE EDITORS**

The original goal of our labour market yearbooks is to review annually the main developments in the Hungarian labour market and to give an in-depth analysis on selected key issues. The subsequent chapters of this volume present “stylised facts” and recent research results, together with selected information and statistical data. Our further intention is to guide readers in finding other relevant publications and reliable statistical sources. Experiences accumulated through the publication of the previous volumes (six in Hungarian and four in English) and their reception in Hungary and abroad validated our original idea and gave us the encouragement and stimulation to enhance both the contents and the quality of the new volumes.

### **1. Labour Market Trends in Hungary, 2005**

Similar to previous volumes the opening chapter gives an overview of recent labour market developments and employment policies. The author analyses the latest developments in labour force activity and wages in the Hungarian labour market and gives a brief overview of the main trends over the previous year and the factors shaping these trends. It concludes by considering the top priority that national labour policy might follow. The chapter discusses the main aggregate variables of the Hungarian labour market, breaking down, through different dimensions: gender, regions, age and education. The brief analysis touches on the sectoral breakdown of employment and unemployment (industry, agriculture and services), the changes in unemployment duration and the working intentions of non-participants. In conclusion the author try to capture the trends of gross and net wages in different dimensions .

### **2. In Focus – Industrial Relations in Hungary**

A yearbook series exploring labour market evolution in terms of demand and supply should not overlook forces and institutions which are not directly mar-

ket-like. The legal environment, employment policy or industrial relations are decisive for the working of the labour market. The relationships between employees, employers and the state, the bipartite and tripartite negotiations and agreements of trade unions, employers' organisations and the government largely influence wages, employment and conditions of work – differently, by countries and times, as historical and present-day evidence illustrates.

The *In Focus* section of this year's *Hungarian Labour Market volume* can hardly give a comprehensive, monographic answer to these questions. Its humble goal is to give an overview of industrial relations' developments in Hungary over the past decade. This particular span of time was chosen because on the one hand several reviews of the period up to the mid-1990s have been published (*Ladó-Tóth* 1996; *Borbély* 1999; *Koltay* 2000) and on the other hand the middle of the 1990s can be regarded as a turning point both in the economic processes and in the system of industrial relations.

The economic growth that began after the “transformational recession” and the subsequent macroeconomic stabilisation clearly opened up new prospects for the consultation and negotiations of social partners. By that time, plural trade unions and employer organisations – the successors of the old-regime organisations and new ones – were more or less over their bitter in-fighting over issues of legitimacy, and the new system of relations, at just about the same time, had also solidified. The failure to reach a *social pact* (Social and Economic Agreement of 1995) made the constraints of macro-level interest reconciliation obvious. The role of collective labour law institutions in companies had also crystallised at the micro level too.

Similarly to previous volumes of the yearbook, *In Focus* primarily relies on recent items of research. Its purpose is not to fill research gaps but to both arrange systematically and link analyses chosen by the editors in order to give the most comprehensive possible overview of industrial relations as they have developed in the swirls of the transition to a market economy. We do hope that from different angles and with a variety of tools the chapters in the volume lead to converging conclusions, occasionally pointing out the specific opinion of the respective authors if different. It is our intention to provide the reader with a picture more clear-cut and more detailed than before of the relations between employees, employers and the government.

Essentially, *In Focus* chapters uphold the established views and evaluations (based among others on earlier writings by the authors of this volume's *In Focus*) on decentralised wage determination; the limited scope and regulatory power of collective agreements; the survival of informal bargaining at the workplace; the dominance of unilateral employers' decisions and of direct market factors; the decline in organised labour; the fragmented nature of employee and employer organisations; the increasing individualisation in industrial relations. The same holds true with regard to the weaknesses of the



intermediate, i.e. the sectoral level of industrial relations, discussed extensively in the volume, among others in the context of EU membership.

The *In Focus* chapters are arranged in four parts. The first, dealing with the Hungarian social partners starts with analyses of employers' associations and trade unions: how they are organised, what their interest advocacy policies are and their financial and human resources. The chapter on employers' organisations gives an overview on memberships, internal structure and typical interest representation strategies as well as financial resources for operations. Further, it covers the duality of representing business and employers' interests, authorisation of employers' organisations to negotiate with partners, the role of services they provide and finally their relationship with the economic chambers. The chapter on trade unions discusses in detail the most important features of the Hungarian union movement, such as membership size, the internal structure and conflicts of confederations and sectoral federations, financial resources, typical representation strategies of unions and how they retain and organise membership.

Following the introduction of the actors, the three chapters of the second part focus on the intermediate level of industrial relations. The first chapter puts under scrutiny regional industrial relations, namely County Labour Councils. The Councils are important in two ways: on the one hand they directly influence the working of the labour market through their role in distributing resources allocated to employment policy funding; on the other hand they act as a vehicle for the participation of the social partners in decisions on the distribution of various EU funding and on the strategies of vocational training. The second chapter describes the sectoral social dialogue committees, the setting up of which has undoubtedly been the most important institution building development over the past two or three years. These brand new sectoral fora, have hardly, as yet, started to function but trade unions already regard them as a potential arena for negotiating sectoral collective agreements. At the same time, both sides intend to use these fora for consultation and lobby activities to influence the economic regulation of the sector and potentially, if only indirectly, sectoral employment as well. The next chapter addresses industrial relations in public services (civil servants and public employees). It outlines institutional developments at the sectoral and national level in this area as well as the achievements of collective negotiations. The primary focus of this chapter is the analyses of wage increases (with a special emphasis on the 2002 wage hike for public employees), and strikes and demonstrations in public services.

The next part is devoted to collective bargaining, traditionally the most important issue of industrial relations. The first chapter examines the penetration and the various levels of collective agreements in Hungary as well as the changing contents of the agreements – as far as is possible using the available

statistics. Following this a case study is presented of bargaining activities in a special sector: public road transportation. The peculiarities of this sector include not only frequent strikes, service providers in a monopoly position, but also maintaining state ownership, with all its controversies. Focusing on the trade unions' role at company or workplace level, the third chapter on collective bargaining examines to what extent collective agreements, individual deals and – if employees in a bargaining position are lacking – unilateral employer's decisions on individual wages, determine wages. The paper explains within a historical perspective how and why company level bargaining strategy of Hungarian trade unions coincides with the modern human resources policy of employers regarding wage flexibility.

The two chapters in the last part of *In Focus* deal with the latest developments of workplace interest representation. Based on the findings of a survey, the author of the first chapter presents the penetration, composition and operation of the works councils introduced in 1992, then points out the importance of European works councils at multi-national companies in Hungary. EWCs are a new phenomenon in Hungary as it became mandatory only when Hungary joined the EU to invite the representatives of Hungarian employees to the bodies working at the European company headquarters or to set up EWCs at the few multinational companies headquartered in Hungary. The chapter on the "individualisation" of industrial relations draws the readers' attention to the problems of workplaces without a trade union or those with a "soft" one. Partly from a theoretical point of view and partly based on experience, the author investigates in what way the informal wage and performance bargaining between workers and management has changed since the state socialist period, and how this change relates to modern human resources management of companies in their everyday shop-floor practices.

### **3. Changes in the Legal and Institutional Environment of the Labour Market**

This chapter addresses the changes in the legal and institutional environment of the labour market in two parts. The first part presents the measures that were taken in 2004 – after the publication of the previous volume of the Labour Market Review – and which entered into force in 2005. The second part describes the new legislation and amendments that took place in 2005.

### **4. Statistical Data**

The closing chapter presents a statistical data set, and gives comprehensive information on the main economic developments, such as demographic trends, labour force participation, employment, unemployment and inactivity, wages, education, labour demand and supply, regional differences, migration, com-

muting, and labour relations, together with some international comparisons and methodological remarks. Data on wage and earning differentials are also presented, along with labour market developments at the level of seven regions and twenty counties. Considering the “in focus” chapter of this volume a special sub-chapter has been included in this chapter which offers some tables describing the main characteristics of industrial relations in Hungary.

# **LABOUR MARKET TRENDS IN HUNGARY, 2005**

**ÁLMOSS TELEGDY**



# 1. INTRODUCTION

2005 was a successful year for Hungary by most macroeconomic indicators. GDP growth was about 4.3 percent, higher than in the previous two years, when it was 3.8 and 3.4, respectively.<sup>1</sup> Inflation was as low as 3.6 percent (measured by the consumer price index). The volume of investment also increased (by 6.4 percent), and industrial productivity grew by 10.7 percent. The success suggested by these figures, however, is somewhat tarnished by the very high budget deficit of over 2 percent, which shows the need for a correction in the very near future.

Concerning the labour market, three changes can be traced in 2005: the unemployment rate was high compared to previous years, and continued to increase during the year; the number of public sector employees continued to decline; real wages continued to rise and the increase was driven by the public sector. The growing economic activity, however, was not accompanied by a significant shift in the traditionally low participation rate, and the employment rate also remained stable at a low level.

The purpose of this report is to document the changes in the labour market indicators during 2005, and consider what can be the source of the change. The next section focuses on the employment and inactivity rate. Section three presents the unemployment rate. The last section documents changes in the real wages.

# 2. EMPLOYMENT AND INACTIVITY

Labour force participation has been low in Hungary since the beginning of the transition, and this has not changed in 2005. Table 1. shows that among the working age population (15–74 years old) the participation rate was 54.5 percent, less than one percent higher than in 2004.<sup>2</sup> This figure is 56.9 percent in the 25 European Union (EU) countries, showing that Hungary is a low

1 The figures presented in this chapter come mostly from the Hungarian Statistical Office Statdat system.

2 These rates are defined according to the International Labour Organization (ILO) definition. The participation rate (or activity rate) is defined as the number of working and unemployed over the total population (aged 15–74). Unemployment rate is defined as the number of unemployed over the number of active population. All those who are not active, are classified as inactive.

participation country, although the difference between the country and the EU average is not so great. The number of the active population was also quite stable, increasing only by 52 thousands on average between 2004 and 2005.

**Table 1: Economic Activity in 2005**

	Emp.	Unemp.	Active	Inactive	Emp. Rate	UE rate	Part. rate
<b>Total</b>							
2004	3,900.4	252.9	4,153.3	3,567.9	50.5	6.1	53.8
2005	3,901.5	303.9	4,205.4	3,517.1	50.5	7.2	54.5
<b>Quarterly</b>							
Q1 2005	3,870.6	297.4	4,168.0	3,556.0	50.1	7.1	54.0
Q2 2005	3,891.5	299.5	4,191.0	3,532.4	50.4	7.1	54.3
Q3 2005	3,927.6	308.6	4,236.2	3,485.7	50.9	7.3	54.9
Q4 2005	3,916.4	309.9	4,226.3	3,494.4	50.7	7.3	54.7

Source: *Hungarian Statistical Office* Statdat system. The figures refer to population 15–74 years old. The numbers are expressed in thousands, the rates in percents of the total.

The employment rate in 2005 was 50.4 percent, exactly the same as in the previous year. On average, 1,100 jobs were created on the net, the number of employed reaching 3,901.5. Over the year, the employment rate was quite stable, as the quarterly data in Table 1. show. The employment rate varied between 50.1 and 50.9 percent, and the participation rate between 54 and 54.9 percent. Across genders, however these rates are rather different: The male participation rate was 61.7 percent, while only 47.8 percent of the females were active in the labour market (shown in Table 2.). The employment rate shows a similar pattern across genders: it was 57.4 percent across males and only 44.2 percent across females. This difference of 13 percentage points in the male and female employment rates is not unusual: in the EU it was 15.2 percent among the population aged 15–64 (Eurostat).

**Table 2: Economic Activity in 2005 by Gender**

	Men			Women		
	Emp. Rate	UE rate	Part. rate	Emp. Rate	UE rate	Part. rate
Total	57.4	7.0	61.7	44.2	7.5	47.8
Q1	56.8	7.0	61.1	44.0	7.3	47.5
Q2	57.2	6.9	61.5	44.1	7.4	47.7
Q3	57.9	6.9	62.2	44.4	7.7	48.1
Q4	57.7	7.1	62.2	44.3	7.6	48.0

Source: *Hungarian Statistical Office* Statdat system. The figures refer to population 15–74 years old.

Of the employed, about 70 percent were employees (2,729 thousand) and the remaining 30 percent self-employed (1,172.5 thousand). The proportion of public sector employees in all employees was 29.5 percent.

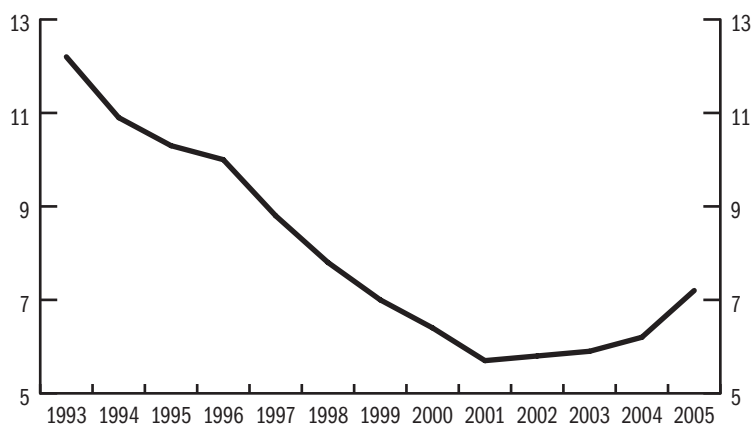
Net job creation had opposing trends in the corporate and public sector. Between 2004 and 2005, the number of corporate jobs increased by 4,200. On the contrary, the number of public jobs declined by 10,700, which shows that the number of employees declined in the whole economy by 6,500.<sup>3</sup> Therefore, the number of self-employed must have increased by 7,600 in order to reach the figure of 1,100 jobs created in the economy.

Job creation and destruction also varied among industries. The largest proportion of net job destruction took place in agriculture, industry (2.9 percent in each) and health and social services (2.3 percent). The sectors with the highest increase in the number of employees were financial intermediation (5 percent) and real estate and business services (7.4 percent), while the number of employees in the other sectors of the economy was quite stable.<sup>4</sup>

### 3. TRENDS IN UNEMPLOYMENT

The most important change over the last several years concerned the unemployment rate, which, after a steady decline from its highest level of 12.1 percent in 1993 reached a low of 5.7 percent in 2001, as Figure 1 shows. After 2001 it started to climb slowly until 2004, increasing during this three year period by only less than half a percentage point. The year of 2005, however, added more than one percentage point to the unemployment rate, reaching 7.2 percent. While the Hungarian unemployment rate is still smaller than the average EU 25 rate of 7.8 percent in 2005, its trend is of concern together with the fact that unemployment increased during a period when the economy was growing quite quickly.<sup>5</sup>

Figure 1: Unemployment Rate, 1993–2005



Source: *Hungarian Statistical Office* Statdat system.

Table 2. shows the unemployment rate by gender for 2005, totals and by quarter. The unemployment rate is 7 percent among men, and half a percentage

<sup>3</sup> The average number of public sector jobs increased in 2002 by approximately 18,000, then it started to decline in the following year, but at a very small pace (2,000 jobs).

<sup>4</sup> These figures exclude the self-employed.

<sup>5</sup> The latest data reveal that the unemployment rate continued to increase, reaching 7.8 percent in February 2006.



point higher among women. Quarterly data reveal that men's unemployment rate was stable over 2005, but women's increased by 0.3 percentage points.

In addition to the 304 thousand unemployed the number of discouraged workers (those who do not work and are available but do not search) is also rather high at 110.8 thousand. As in most countries, these people are categorized in Hungary as inactive, as the search criteria is not satisfied and thus they cannot be considered unemployed. The Bureau of Labour Statistics (BLS), however, regularly publishes "measures of labour under-utilization."<sup>6</sup> One of these measures includes discouraged workers as unemployed. Had the Hungarian statistics categorized these people as unemployed, the unemployment rate would have been boosted to 9.6 percent.<sup>7</sup>

One important feature of unemployment is its duration. While short term unemployment can be attributed to job search – and it may well have a disciplinary role – long term unemployment is detrimental for several reasons: people may get discouraged and stop actively looking for a job, their skills may deteriorate or even become obsolete over long spells, and stigmatization can also be associated with long term unemployment. The structure of unemployment duration did not change much between 2004 and 2005 as Table 3. shows. The proportion of people looking for a job for over one year actually increased slightly (from 40 percent to 41.6 percent) and the proportion of shorter spells declined somewhat.

**Table 3: Length of Job Search of Unemployed in 2004 and 2005**

UE. spell	2004		2005	
	Thousands	Percent	Thousands	Percent
< 1 month	13.0	5.2	14.8	5.0
1-3 months	42.0	16.8	48.9	16.5
4-6 months	39.9	15.9	44.1	14.9
7-12 months	55.3	22.1	65.4	22.1
13-18 months	33.4	13.3	41.0	13.9
19-24 months	19.6	7.8	27.4	9.3
> 25 months	47.2	18.8	54.3	18.4
Total	250.4	100.0	295.9	100.0

Source: *Hungarian Statistical Office* (2005, 2006). The figures refer to population aged 15–74. Unemployment spell is measured in months. Unemployed who start working in 90 days are excluded.

<sup>6</sup> The Bureau of Labour Statistics is the main agency of the US Federal Government that collects statistics on American employment.

<sup>7</sup> The number of discouraged workers was as high as 117.6 thousand in 2002, the following year it declined to 100 thousand, and in the last two years it was at around 110 thousand.

Who are the unemployed and which demographic category suffered from its increase in 2005? Table 4. presents the unemployment rates for 2004 and 2005 by gender, education and age. Male and female unemployment rates were equal in 2004, but female unemployment increased by half a percentage point more than male unemployment. Among education groups, those with at most 8 classes experienced the sharpest increase in the number of unemployed: this group's unemployment rate rose from 12.3 to 15.6 percent in a

year. Among those with vocational training, the unemployment rate was half a percentage points higher in 2005 than in 2004 (it rose from 6.9 to 7.4 percent), while high school graduates' unemployment rate increased only slightly, from 4.7 to 4.9 percent. Among the population with a higher education, the unemployment rate did not change but remained at 2.3 percent.

**Table 4: Unemployment Rates by Gender, Education, Age and Region, 2004, 2005**

	2004	2005	Change
<b>Total</b>	6.1	7.2	1.1
<b>Gender</b>			
Men	6.1	7.0	0.9
Women	6.1	7.5	1.4
<b>Education</b>			
≤ 8 classes	12.3	15.6	3.3
Vocational	6.9	7.4	0.5
High school	4.7	4.9	0.2
University	2.3	2.3	0.0
<b>Age</b>			
15–19	34.9	37.8	2.9
20–24	13.4	17.5	4.1
25–29	6.5	8.2	1.7
30–39	6.0	6.8	0.8
40–49	5.0	5.7	0.7
50–59	3.9	4.8	0.9
<b>Region</b>			
Central Hungary	4.5	5.2	0.7
Central Transdanubia	5.6	6.3	0.7
Western Transdanubia	4.6	5.9	1.3
Southern Transdanubia	7.3	8.8	1.5
Northern Hungary	9.7	10.6	0.9
Northern Great Plain	7.2	9.1	1.9
Southern Great Plain	6.3	8.2	1.9

Source: *Hungarian Statistical Office* (2005, 2006). The figures on gender education and region refer to population aged 15–74.

The distribution of the unemployment rate by age group shows that unemployment increased the most among the population aged 20–24 (from 13.4 to 17.5 percent, or by 4.1 percentage points). The second largest increase was experienced by the youngest cohorts (15–19 years old), among whom the unemployment rate increased by 2.9 percentage points, from 34.9 to 37.8 percent. Among people 25–29 years old the increase was of 1.7 percent (from 6.5 to 8.2 percent). Among older cohorts the unemployment rate increased by 0.7–0.9 percent.

Finally, we investigate changes in regional unemployment rates. The largest increase between 2004 and 2005 did not always take place in already high unemployment regions. The two regions comprising the East of the country

(the Northern and the Southern Great Plain) experienced the largest increase of almost two percentage points. The second group – Western and Southern Transdanubia – had an increase of 1.3 and 1.4 percent, respectively. The central part of the country (comprising Central and Northern Hungary and Central Transdanubia) had an increase of less than one percent. It is worth noting that although Northern Hungary had the largest unemployment rate both in 2004 and 2005, the change in its regional rate is not high.

To summarize, the 1.1 percentage point increase in the unemployment rate was not distributed equally among demographic groups. Groups traditionally considered as disadvantaged – females, those at the bottom of the skill ladder and young workers, among them many new entrants to the labour market – had a disproportionately greater chance to become unemployed during 2005. Already high unemployment regions were not hit more by the increase than those which had a relatively low unemployment rate.

What can the reasons be for the increase in unemployment while the Hungarian economy was growing by over 4 percent? Without a thorough analysis one can only speculate, and there are several possibilities. On the demand side it is possible that some form of skill biased technological change took place, as the economic growth was accompanied by an increase in the volume of the investment. This is supported by the fact that unemployment increased mostly among the young and uneducated. Second, it is possible that despite the overall growth of the economy, industries traditionally employing low skilled workers shrank. There is some evidence for this hypothesis: in agriculture about 11 thousand jobs were destroyed, another 10 thousand in transport, storage and communication, and 24 thousand jobs in industry (*Hungarian Statistical Office* 2006). Other sectors which also employ low-skilled workers grew, however. In trade and reparations 40 thousand jobs were created, and in hotels and restaurants another five thousand.

On the supply side economic growth could motivate people to switch from inactivity to unemployment if they believed that more jobs are available now than in the past or if they decided to start searching for some other reason. A piece of regulatory change in 2004 could also increase the willingness to start searching (Law 123/2004). If an employer hires an unemployed elderly person or somebody who has recently been on maternity leave, he can benefit by a reduction of up to 50 percent of the social security payment. If the disadvantaged inactive believe that this tax reduction made it more likely for them to get a job, they might start actively searching and thus become unemployed.

The data support these hypotheses to some extent: between 2004 and 2005 the number of inactive persons declined by 50.8 thousand, while the number of unemployed increased by the same amount (see Table 1.). Discouraged workers, however, are the group most susceptible to become active (start to search) if they believe it is worthwhile doing so. Thus, the number

of discouraged workers should also decrease if the increasing unemployment rate is due to supply side factors. But we do not observe this in the data. Actually, the number of discouraged workers increased slightly between 2004 and 2005, from 109.2 to 110.8 thousand. In conclusion, there is probably no simple story behind the increase in the unemployment rate. More could be said about its causes only by looking at the number of people transiting across types of labour force status.

In conclusion, labour force activity and employment did not change much during 2005. The unemployment rate, however, after a steady decline between 1993 and 2001, and a small increase between 2001 and 2004, grew quite substantially, by over one percentage point. This growth was disproportionately distributed in the population, affecting mostly women, the young and the uneducated. The increase in unemployment is also worrying because the economy was on a growth path during this period. I have outlined several factors that could have had a role in the growing unemployment, but to choose among them a more elaborate analysis is necessary.

#### 4. WAGES

The average gross wage of full time employees in 2005 was HUF 158 thousands, which represents an 8.8 percent increase compared to the previous year, as Table 5. documents.<sup>8</sup> The real wage increase was 5 percent (deflating with the consumer price index [CPI] = 103.6 percent). The average net wage was equal to HUF 103 thousand, 10 percent higher in nominal terms than in 2004. The real net wage increase was 6.2 percent. The 1.2 percent difference between the gross and net wage increase indicates a small decline on the tax burden of the average wage.

**Table 5: Average Earnings of Full-Time Employees**

	Total		Corporate		Public	
	Level	Percent Change	Level	Percent change	Level	Percent change
<b>Gross Earnings</b>						
Total	158,315	108.8	148,520	106.9	182,172	112.8
Blue Collar	102,668	106.9	102,651	106.0	103,737	112.4
White Collar	222,768	109.6	238,213	107.1	207,981	112.7
<b>Net Earnings</b>						
Total	103,134	110.1	98,421	108.4	114,583	113.7
Blue Collar	76,016	108.3	75,981	107.6	77,217	112.7
White Collar	134,544	111.0	142,477	108.7	126,879	113.8

Source: *Hungarian Statistical Office* Statdat database. Earnings are expressed in current HUF. Percent change refers to values in the previous year.

The gross (net) average wage of blue collar workers was HUF 103 thousand (76 thousand) and of white collar workers 223 thousand (135 thousand). The

<sup>8</sup> The HUF/Euro average exchange rate was 248.05 in 2005, hence the average real wage was Euro 638.

nominal gross wages of blue collar workers increased by 6.9 percent (the net by 8.3 percent), whilst that of the white collar workers by 9.6 percent (the net by 11 percent). The increase in the skill premium indicates that the gap between lower and better educated people further increased during 2005.

The dynamics of wages was very different for the corporate and public sectors. While gross wages in the first increased by 6.9 percent and net wages by 8.4 percent, public sector employees enjoyed an increase of gross 112.8, and net 113.7 percent. Looking at the corporate sector only, the wage dynamics of blue and white collar workers is very similar: the difference between the growth rates is only about 1 percent (for the benefit of white collar workers). In the public sector the change in the skill premium is also 1 percent. Overall, the figures show that the large rise in skill premium measured in the overall economy masks a public sector wage premium increase.

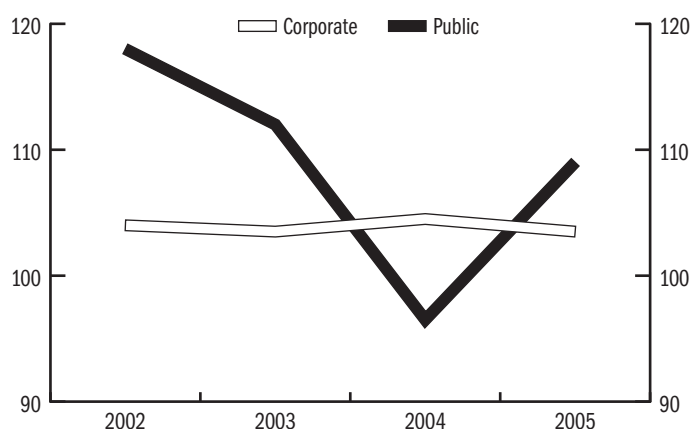
Different wage dynamics in the public and corporate sector are not surprising in the light of the earlier years' developments, and taking into consideration the fact that the driving forces changing wages in the two sectors are very different: market forces in the corporate sector, and political considerations in the public sector. Figure 2, which presents the annual change of average real wages in the corporate and public sector, documents the diverse behaviour of the two sector's wages. In the corporate sector wages grew each year by between 3 and 4.5 percent. In the public sector, however, one can track rather large changes in the wage dynamics. Between 2001 and 2002, real wages in the public sector increased by 18 percent, which was the consequence of the increase of all public sector employees by 50 percent. The following year, average wages increased by 12 percent (still showing the effect of the same policy).<sup>9</sup> In 2004, probably under the pressure of a high budget deficit, the government started to inflate away wages, which had the effect of a 4 percent wage decline in the public sector. Finally, in 2005, in the pre-election year, wages again increased significantly, by nine percent in real terms.

Table 6. shows the level of wages by industry, as well as their relative level (compared to the average wage at the national level) and the change in the wage compared to the previous year. The lowest paid industries were hotels and restaurants, agriculture, hunting, forestry and construction, in which only 60.5, 64.9 and 67.3 percent of the average wage was paid, respectively. Workers in trade were also paid well below the national average (82.6 percent). Industries close to the national average, but still not reaching it are health, other services and industry (91, 93.5 and 95.5 percent). It is worth mentioning that mining and energy, which are parts of industry, are paid better than the national average; wages in these sectors are 6.3 and 31.3 percent higher than in the whole economy. Taken together with the industry average, it shows that the average employee in manufacturing was paid less than the average industrial employee. Sectors close to the national average but higher than it are real

9 For an analysis of the public sector wage premium following the increase, see *Telegdy (2005)*. Public sector wages were raised in September 2002, and because in Figure 2 average wages are presented, a part of the wage increase is shown between 2002 and 2003.

estate and business services (102.3 percent) and transport and postal services (107.2 percent). Finally, the best paid sectors are education with salaries 15 percent higher than the average, financial intermediation (21 percent) and public administration, defence and social security (31 percent).<sup>10</sup>

**Figure 2: Change in the Real Wage in the Public and Corporate Sector**



Source: *Hungarian Statistical Office*, Statdat database. Annual changes, expressed in percent. Nominal wages are deflated with the CPI.

**Table 6: Industrial Distribution of the Level and Change of the Real Average Gross Wage, 2005**

	Level	Relative level	Change
Agriculture, hunting, forestry	102,796	64.9	102.3
Industry, of which	151,241	95.5	103.5
Mining	168,365	106.3	100.2
Energy, water distribution	208,383	131.6	104.5
Construction	106,566	67.3	102.9
Trade	130,698	82.6	103.2
Hotels, restaurants	95,773	60.5	102.6
Transportation, postal services	169,748	107.2	103.9
Financial intermediation	350,536	221.4	104.3
Real estate, business services	161,912	102.3	101.3
Public admin., defence, social security	207,287	130.9	108.6
Education	181,448	114.6	109.6
Health	144,023	91.0	106.6
Other services	148,020	93.5	103.8
Total	158,315	100.0	105.0

Source: *Hungarian Statistical Office* Statdat database. The figures refer to full time employees.

Table 6. also shows the percentage change of the real wage compared to the previous year within each industry, and several general patterns can be drawn.

<sup>10</sup> Needless to say, these figures do not control for the quality of the workforce in the industry, and thus reflect – at least partially – the proportion of high-skilled workforce in the given industry.

First, in neither industry can one capture a wage decline. Secondly, in most industries the average wage increased less than the economy-level wage (between 2 and 4.5 percent), the exceptions being health, public administration and education. In these sectors the increase was 6.6, 8.6 and 9.6 percent, respectively. As economic units in these industries belong to the public sector to a very large extent, a high wage increase in them shows the political motivations of increasing public sector employees' wages, as discussed above.

To summarize, during 2005 nominal gross wages increased in the Hungarian economy by 8.8 percent and net wages by 10 percent. Deflation by the CPI shows that real net wages increased by 6.2 percent on average. White collar workers' wage increased by a higher proportion than that of the blue collar workers', but a closer investigation of the sectoral wage differences show that the driving force of these different dynamics was not a skill premium formed by competitive forces, but a greater increase of wages in the public sector than in corporations. As the public sector operates mostly in industries that employ a higher proportion of skilled workers, the greater public sector wage premium pushed up the average high wage of university graduates.

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**IN FOCUS**  
**INDUSTRIAL RELATIONS**  
**IN HUNGARY**

Edited by  
**JENŐ KOLTAY AND LÁSZLÓ NEUMANN**





## INTRODUCTION

### INDUSTRIAL RELATIONS IN HUNGARY – A CLOSE LOOK IN A WIDER PERSPECTIVE

JENŐ KOLTAY AND LÁSZLÓ NEUMANN

A yearbook series exploring labour market evolution in terms of demand and supply should not overlook forces and institutions which are not directly market-like. The legal environment, employment policy or industrial relations are decisive for the working of the labour market. The relationships between employees, employers and the state, the bipartite and tripartite negotiations and agreements of trade unions, employers' organisations and the government largely influence wages, employment and conditions of work – differently, by countries and times, as historical and present-day evidence illustrates.

In the classical approach, the purpose of a collective agreement is to set wages, working time, terms and conditions of employment at the workplace through the bargaining between the employer and the trade union. This interpretation is still used in Anglo-Saxon countries just as it was in pre-world war II Hungary, the difference being that craft organisation at that time helped regulation through collective agreements at the level of the various crafts and trades. Institutional developments in Western Europe over the decades following World War II made it possible for employee and employer organisations to coordinate collective bargaining at higher levels than individual companies or craft and trade segments. Furthermore, negotiations do not concentrate exclusively on wages and productivity – still decisive for profits, unemployment or inflation.

In a good many countries, negotiations between social partners cover vocational training and education policy issues as well. Thus the agreements influence not only individual employer and employee decisions (such as what

qualifications or skills the employee to be hired by the company should have, or how much a family spends on the education of their children) but also the general level of labour skills and thereby the competitiveness of the economy as a whole. The system of industrial relations is one of the non-market coordination mechanisms – an “institutional infrastructure” – that differentiates economic and political regimes of developed market economies (cf. *Hall–Soskice* 2001 identifying “liberal” and “coordinated” varieties of capitalism.)

Just to mention some of the best known institutions developed in Western Europe: confining the labour market competition in the various sectors within the framework of contractual rules and government extension of contracts to workplaces originally not covered; “neo-corporatist” tendencies involving social partners into government, as well as institutionalised participation of European trade unions and employers’ associations in the various procedures and bodies of the European Union. Over a long period of evolution, various patterns of industrial relations have been formed in the countries of the developed world. The question is what kind of industrial relations’ system has evolved over the fifteen years of economic and social transformation in emerging market economies, such as Hungary, sweeping away a state socialist system, not tolerating autonomous interest representation.

Scarce experience, short perspectives and related insufficiencies of research make it difficult to answer this question. Moreover, just at the time of trying to overcome the underdevelopment of industrial relations in Hungary, we meet signs of a questioning of the viability of the discipline in developed market economies. To put it more conservatively, researchers are about to radically redefine the goal and content of industrial relations (*Kaufman* 2004; *Taylor* 2005). The return from a narrow study of collective bargaining and of trade unions to the original interdisciplinary approach encompassing the whole world of work may have a paradoxical affect on Hungarian research, which has tended to use different tools and a broader view: it may either encourage the retention of the multi-faceted approach and progress in the direction of industrial relations in the narrower sense or weaken the efforts to catch up in the areas mentioned.

What underlies these seemingly academic presumptions are the changes in the world of work. The goal of classical industrial relations approach was to understand the relations of waged work – that had become overwhelming with mass production and Fordist-Taylorist work organisation and management – and to rationalise and improve them by using a wide range of tools (from economics to sociology and management sciences). In the course of its development, parallel with that of the industrial society, the interest on industrial relations exactly narrowed down at its heyday in the steady growth period of the 1950s and 60s, when trade unions had become an important social and economic institution and collective agreements were spreading.

With new technologies, the renewal of company management, and global competition, it is the multi-faceted interdisciplinary approach that may better help understand the post-industrial world of differentiating employment forms, increasingly individualised regulation and direct employer-employee relationships (tending to leave aside declining trade unions).

The *In Focus* section of this year's *Hungarian Labour Market volume* can hardly give a comprehensive, monographic answer to these questions. Its humble goal is to give an overview of industrial relations' developments in Hungary over the past decade. This particular span of time was chosen because on the one hand several reviews of the period up to the mid-1990s have been published (*Ladó-Tóth* 1996; *Borbély* 1999; *Koltay* 2000) and on the other hand the middle of the 1990s can be regarded as a turning point both in the economic processes and in the system of industrial relations.

The economic growth that began after the "transformational recession" and the subsequent macroeconomic stabilisation clearly opened up new prospects for the consultation and negotiations of social partners. By that time, plural trade unions and employer organisations – the successors of the old-regime organisations and new ones – were more or less over their bitter legitimacy in-fights, and the new system of relations, at just about the same time, had also solidified. The failure to reach a *social pact* (Social and Economic Agreement of 1995) made the constraints of macro-level interest reconciliation obvious. The role of collective labour law institutions in companies had also crystallised at the micro level too. Selecting a specific period to be explored, however, implies that the historical review will be limited to what seems absolutely necessary for an understanding of the interconnections as well as for the explanation of the specifics of Hungarian labour relations and for drawing the conclusions. While, because of space constraints, the international aspects had to be left out, related research findings and literature are referred to by the authors as necessary. Furthermore – without relevant recent research findings – some fields to be included in a classical monograph are lacking in the volume. Thus the reader will surely miss the review of the development of collective labour law and of the activities of the National Interest Reconciliation Council.

Similarly to previous volumes of the yearbook, *In Focus* primarily relies on recent items of research. Its purpose is not to fill research gaps but to arrange systematically and link analyses chosen by the editors in order to give the most comprehensive possible overview of industrial relations as they have developed in the swirls of the transition to a market economy. We do hope that from different angles and with a variety of tools the chapters in the volume lead to converging conclusions, occasionally pointing out the specific opinion of the respective authors if different. It is our intention to provide the reader

with a picture more clear-cut and more detailed than before of the relations between employees, employers and the government.

Essentially, the volume upholds the established views and evaluations (based among others on earlier writings by the authors of this volume's *In Focus*) on decentralised wage determination; the limited scope and regulatory power of collective agreements; the survival of informal bargaining at the workplace; the dominance of unilateral employers' decisions and of direct market factors; the decline in organised labour; the fragmented nature of employee and employer organisations; the increasing individualisation in industrial relations.

The same holds true with regard to the weaknesses of the intermediate, i.e. the sectoral level of industrial relations, mostly, in the same way, viewed negatively by foreign analysts. On the one hand, there are the well-known organisational causes: fields of organisation often do not overlap on the two sides; the sectoral organisations are not authorised to negotiate and/or do not have the powers to enforce sectoral agreements at the company level. Thus, the majority of domestic employers do not wish to waive their autonomy to conclude agreements or set wages, and do not want to join higher level collective agreements, which restrict competition and do not seem necessary in order to fend off the danger of eventual state intervention (typically the extension of the agreement); neither are employers attracted by the possibility to reduce in this way the transaction costs of their human resources policy. On the other hand, however, intermediate level institutions and agreements are often regarded, especially on the employee side, as an efficient antidote of sectoral or regional wage differentiation. Not elaborating here on the expectations about sectoral institution building (discussed *In Focus*) or on the experience from abroad, it is only to be noted that intermediate level coordination of wage bargaining can serve not only the levelling out of wages with its macro-economically unfavourable effects (boosting wages and discouraging employment cf. *Calmfors–Driffill*, 1988) but also the curbing of wages (moderating wage demands and wage hikes) with its macro-economically favourable effects (fostering employment and price stability, see the Austrian debate on competition-exposed wage leading sectors and wage following sectors *Pollan* 2004 and *Traxler* 2005).

The *In Focus* chapters are arranged in four parts. The first, dealing with the Hungarian social partners starts with analyses of employers' associations and trade unions: how they are organised, what are their interest advocacy policies and their financial and human resources. The chapter on employers' organisations gives an overview on memberships, internal structure and typical interest representation strategies as well as financial resources for operations. Further, it covers the duality of representing business and employers' interests, authorisation of employers' organisations to negotiate with partners, the

role of services they provide and finally their relationship with the economic chambers. The chapter on trade unions discusses in detail the most important features of the Hungarian union movement, such as membership size, the internal structure and conflicts of confederations and sectoral federations, financial resources, typical representation strategies of unions and how they retain and organise membership.

Following the introduction of the actors, the three chapters of the second part focus on the intermediate level of industrial relations. The first chapter puts under scrutiny regional industrial relations, namely County Labour Councils. The Councils are important in two ways: on the one hand they directly influence the working of the labour market through their role in distributing resources allocated to employment policy funding; on the other hand they act as a vehicle for the participation of the social partners in decisions on the distribution of various EU funding and on the strategies of vocational training.

The second chapter describes the sectoral social dialogue committees, the setting up of which has undoubtedly been the most important institution building development over the past two or three years. These brand new sectoral fora, have hardly, as yet, started to function but trade unions already regard them as a potential arena for negotiating sectoral collective agreements. At the same time, both sides intend to use these fora for consultation and lobby activities to influence the economic regulation of the sector and potentially, if only indirectly, sectoral employment, too. The next chapter addresses industrial relations in public services (civil servants and public employees). It outlines institutional developments at the sectoral and national level in this area as well as the achievements of collective negotiations. The primary focus of this chapter is the analyses of wage increases (with a special emphasis on the 2002 wage hike for public employees), and strikes and demonstrations in public services.

The next part is devoted to collective bargaining, traditionally the most important issue of industrial relations. The first chapter examines the penetration and the various levels of collective agreements in Hungary as well as the changing contents of the agreements – as far as is possible using the available statistics.<sup>1</sup> Then comes a case study of bargaining activities in a special sector: public road transportation. The peculiarities of this sector include not only frequent strikes, service providers in a monopoly position, but also maintaining state ownership, with all its controversies. Focusing on the trade unions' role at company or workplace level, the third chapter on collective bargaining examines to what extent collective agreements, individual deals and – if employees in a bargaining position are lacking – unilateral employer's decisions on individual wages, determine wages. The paper explains in a historical perspective how and why company level bargaining strategy of Hungarian

<sup>1</sup> It is to be noted that from this year on the statistical appendix of the yearbook will include a series of tables showing quantitative indices of the institutions of industrial relations, first of all on collective agreements.

trade unions coincides with the modern human resources policy of employers regarding wage flexibility.

The two chapters in the last part of *In Focus* deal with the latest developments of workplace interest representation. Based on the findings of a survey, the author of the first chapter presents the penetration, composition and operation of the works councils introduced in 1992, then points out the importance of European works councils at multi-national companies in Hungary. EWCs are a new phenomenon in Hungary as it became mandatory only when Hungary joined the EU to invite the representatives of Hungarian employees to the bodies working at the European company headquarters or to set up EWCs at the few multinational companies headquartered in Hungary. The chapter on the “individualisation” of industrial relations draws the readers’ attention to the problems of workplaces without a trade union or with a “soft” one. Partly from a theoretical point of view and partly based on experience, the author investigates in what way the informal wage and performance bargaining between workers and management has changed since the state socialist period, and how this change relates to modern human resources management of companies in their everyday shop-floor practices.

Some important actors shaping Hungarian industrial relations are not covered by separate chapters. One of the two actors remaining – here – more or less hidden, is the Hungarian state, i.e. the government in power, and the other is the European Union, or more accurately its bureaucracy: the European Commission.<sup>2</sup> Besides its direct role in negotiating with trade unions as an employer (two chapters cover this issue) and participating in tripartite interest reconciliation at the macro level, the government plays an important role in shaping industrial relations and their institutions. Evaluating the activity of the National Interest Reconciliation Council (and of its predecessors) several authors have concluded that it primarily depends on what role the government wants it to play.

Furthermore, the ambition of the state to build institutions and to regulate spontaneously created organisations is touched upon in several of the writings in the section *In Focus*. The chapter on the working of the sectoral dialogue committees highlights the contradictions involved in the government’s supportive intervention – considered necessary by all participants – that may jeopardise the autonomy of social dialogue, the safeguarding of which is one of the most delicate issues of institution building.

Similarly, the chapter on regional interest reconciliation describes how the legal regulations have degraded the county labour councils, set up more or less spontaneously after the regime change, almost to branches of the National Interest Reconciliation Council by allowing participation only to the local representatives or member bodies of organisations that are present in the National Interest Reconciliation Council. State subsidies, which can be

<sup>2</sup> The research of industrial relations in Hungary seems to focus on trade unions and employers’ organisations only, producing exhaustive and highly critical studies of the representative and democratic nature of their organisations as well as of their stated goals. Yet, one wonders why the research financed mostly from Hungarian or EU funding fails to investigate the role of the par excellence political actors – the parties – in more detail. This kind of research would require a truly multi-disciplinary approach in which the analysis from the point of view of the political sciences would be of paramount importance. The editors sadly admit that, with research on the labour policy of the various subsequent governments and the activities of the government and opposition parties in the area of labour affairs still missing, this trend continues in this volume too. While some of the sub-areas (changes in labour laws, goals and assumed roles of privatisation and of employment and social policies) have been investigated, to our knowledge no researcher has addressed the role of the state and of broader politics in shaping industrial relations over the past fifteen years.



regarded as an intervention in industrial relations can undermine the autonomy and credibility of organisations. It becomes a real danger with the steadily growing share of public grants in the budgets of interest representation organisations, as pointed out in the chapters on trade unions and employers' organisations.

The state, of course, also intervenes in other areas: it extends collective agreements, runs the labour inspectorate which investigates adherence to collective labour law rules and pursues a labour policy – once again a priority area – which rewards “well structured industrial relations” through making “good behaviour” of a company a criterion in active labour market policy grants and public procurement tenders. While it is not our intention to take a position in the debate of these issues, we want to emphasize that now in Hungary, just as in other post-socialist countries and in developed market economies at certain times of their history, the state and public policy have an important responsibility in the shaping of the system of institutions and of the actors of industrial relations (*Adams–Markey 1997; Kaufman 1994; Castel 1998; Pollert 1999; Advagic 2005*).

The European Union's role in shaping industrial relations is addressed explicitly only by the chapter on the sectoral level. Here, the main point is that the goals fixed by the EU are not limited to the PHARE program setting up the sectoral dialogue committees; in which as a matter of fact, through the financing scheme, the EU Commission was directly involved in identifying the goals and when the program was over, in the evaluation of the yields of the EU funding. Furthermore, this chapter emphasises the broader implication that member states should have a well-developed and structured social dialogue and industrial relations system in order to be able to implement community goals and directives in the practice.

For instance, the objectives of the *European Employment Strategy* such as the equality of opportunities between men and women, the introduction of flexible working time schemes and of new forms of work organisation, or the harmonisation of workplace with family needs can be implemented in practice only via the collective negotiations between employers and trade unions. Within the fairly broad framework of the EU directives, only direct negotiations that take into consideration the specialities of the sector and the workplace can harmonise political goals in practice. “*Flexicurity*” is an example of this kind of harmonisation: this principle, originally developed in the Netherlands and in Denmark and later translated into an EU policy, seeks to find specific solutions that help create the delicate balance between the employer's demand of flexibility and the employee's need for security.

On a more general level, facing the challenges of globalisation, the main goals have become competitiveness and social security (the latter considered as one of the achievements of social development after World War II). At the



rhetorical level, both are the goals of the European Union and any important political document (for instance the Lisbon Strategy) mentions them together. The European Union does not simply delegate the task of solving conflicts of interests, or the clash between capital and labour – to use a somewhat archaic terminology – but explicitly expects social partners to make constructive compromises.

Several EU politicians, trade union leaders and labour law experts, however, attribute a much greater importance to the industrial relations of new Eastern European member states than what is involved in employment policy goals. In their view, only a workable social dialogue and the “European style” industrial relations can provide the guarantee for the appropriate working of labour directives, transposed by Hungary too in the course of law harmonisation. This requirement is much more evident in the case of directives (such as the directives on the European Works Councils and the participatory institutions in European Companies [Societas Europea – SE]) which set only framework regulations and procedures, and left the development of the specific forms and ways of operation of representative institutions to the social partners. In the case of the two directives cited, this institution is the agreement between the so called *special negotiation body* and the company’s central management.

It is less obvious, however, that the system of industrial relations and social partners can guarantee the appropriate enforcement of directives specifying itemised regulation and minimal standards as well as the legal provisions transposing them to the national legal system. To put it very simplistically, compliance with the provision of the law should not only be safeguarded by the labour inspectorate and the state institutions of labour courts: it is eventually the employers’ organisations and trade unions which can ensure compliance with the law and with the agreements in the workplace/labour market practice – by way of supervising each other and clarifying rights and obligations in the course of negotiations (Ladó–Vaughan-Whitehead 2003; Vaughan-Whitehead 2003; Weiss 2004). While this is not the official EU approach, it is certainly in the interest of the “old” member states and of Western European social partners that the labour regulations specified in the EU directives be enforced in the labour markets and workplaces of the “new” member states after the enlargement. As trade unions and experts tend to sharply put it: the achievements of the “European social model” are undermined by the “American style” – i.e. more deregulated than the Western European standards – labour rules in the new member states, and more importantly by the frequent open breach of labour regulations or “softened” application thereof through informal procedures in practice (Meard 2002; Vaughan-Whitehead 2003).

It is to be recognised that the EU directives perform generally the same role as have the labour treaties and standards emerging in regional cooperations

between countries or in free-trade zones: all of them try to restrict the competitive advantage of the less developed, low-wage-costs member states (*Gitterman* 2003). Yet, the multinational companies that have come to Hungary precisely to exploit this advantage over the last 15 years are perhaps the most important factor shaping employment in Hungary. This is the point where the EU requirements for industrial relations directly link to the trans-border relocation of jobs, and thereby to the changes on the Hungarian labour market.

## 1. SOCIAL PARTNERS IN HUNGARY

### 1.1 The Employers' Organisations in the World of Work

ANDRÁS TÓTH

In this chapter the author first reviews the development of employers' pluralistic interest representation and the structure, internal organisation and membership of employers' organisations. Following this the functions and services of employers' organisations will be discussed. Finally, the most important research findings will be summarised in order to understand the nature of employers' organisations in the broader context of post-socialist industrial relations.

#### *The history of employers' pluralist interest representation*

Under socialism state owned enterprises, cooperatives and private entrepreneurs were forced to join one of the five national organisations created by the regime: the *Hungarian Chamber of Economy* (*Magyar Gazdasági Kamara*, MGK), the *Hungarian Industrial Association* (*Ipari Szövetkezetek Országos Tanácsa*, OKISZ),<sup>3</sup> the *National Cooperative Council* (*Termelőszövetkezetek Országos Tanácsa*, TOT), the *National Association of Cooperatives* (*Szövetkezetek Országos Szövetsége*, SZÖVOSZ), the *National Association of Craftsmen* (*Kisiparosok Országos Szövetsége*, KIOSZ), the *National Association of Retailing and Catering Entrepreneurs* (*Kereskedők és Vendéglátók Országos Érdekképviselői Szövetsége*, KISOSZ) The task of these organisations was to fulfil some governmental and supervisory functions and to represent the interests of the economic units in their respective sectors (Tölgyessy 1988). With the regime change however, these former state-controlled organisations reformed themselves into voluntary interest representation associations. All five organisations were successful in maintaining organisational continuity and the bulk of their membership. The reformed organisations adopted new by-rules based on voluntary membership and declared that their main goal would be representing the interests of their members. In most cases, the re-making of the organisation was accompanied by a change in its name. SZÖVOSZ became the *National Association of General Consumer Cooperatives* (*Általános Fogyasztási Szövetkezetek Országos Szövetsége*, ÁFEOSZ), KIOSZ became the *National Association of*

<sup>3</sup> The organisation was set up in 1948 under the name National Crafts Association (*Országos Kisipari Szövetkezet*, Okisz).

*Craftsmen's Corporations (Ipartestületek Országos Szövetsége, IPOSZ)* while retaining the old acronym, and TOT became the *National Federation of Agricultural Cooperators and Producers (Mezőgazdasági Szövetkezők és Termelők Országos Szövetsége, MOSZ)*. While OKISZ retained its acronym, the official full name of the organisation was changed to the *Hungarian Industrial Association (Magyar Iparszövetség)*. KISOSZMGK took the name the *Hungarian Employer's Association Magyar Munkaadói Szövetség (MMSZ)* in 1994. Only KISOSZ kept its full name.

Parallel with the reform of former monopolistic business organisations in the transition period, new employers' associations were also established in order to represent the enterprises of the emerging private sector. The first of these organisations was the *National Association of Entrepreneurs (Vállalkozók Országos Szövetsége, VOSZ)*, which was set up in 1988 and in 1998 became the *National Association of Entrepreneurs and Employers (Vállalkozók és Munkáltatók Országos Szövetsége)* the acronym VOSZ remaining unchanged. In the summer of 1990, a group of medium and large firms of VOSZ set up a new organisation: the *Confederation of Industrialists Gyáriparosok Országos Szövetsége (GYOSZ)*. GYOSZ became the *Confederation of Hungarian Employers and Industrialists (Magyar Gyáriparosok Országos Szövetsége, MGYOSZ)* in 1991. In the agrarian-sector the Hungarian Chamber for Agriculture was set up in 1990 to represent the interests of the emerging small private farmers and landowners. This organisation later adopted the name of the *Union of Agrarian Employers (Agrár Munkaadói Szövetségnek, AMSZ)* when the statutory economic chambers were established in 1994, in order to distinguish itself from the latter organisations.

The reconfiguration of employers' interest representation coincided with the creation of the standing tripartite body for social dialogue. The Interest Reconciliation Council (*Érdekegyeztető Tanács, ÉT*), eventually established in the early autumn of 1990, was initiated by the first democratic government by way of inviting all the above listed nine employers' organisations. This invitation practically ensured a national interest representation status for these organisations. After the wave of setting up/reforming organisations in 1989 and 1990 was over, only one further significant employer organisation was set up: the *National Association of Strategic and Public Utility Companies (Stratégiai és Közszolgáltató Társaságok Országos Szövetsége, STRATOSZ)* in 1994. The creation of STRATOSZ, however, was perceived to be controversial for many. Some sources say that in 1994 a ministerial circular "instructed" companies to join STRATOSZ. Owing to these curious circumstances, employers' organisations in ÉT did not believe that STRATOSZ was independent and refused to allow it to join the Council. STRATOSZ never accepted the criticism, and confirmed that major state owned public utility companies set up the organisation as these companies had no suitable representation

whatsoever in the framework of previously existing employers' organisations. ([www.stratosz.hu/szervezet/szervezet\\_bemutatasa.html](http://www.stratosz.hu/szervezet/szervezet_bemutatasa.html)). Eventually, after the restructuring of the interest reconciliation body in 1999 under the next government, STRATOSZ was given membership on the employers' side in the National Labour Council (*Országos Munkaügyi Tanács*, OMT).

As ÉT membership was based on Government invitation in 1990, legitimacy of membership has ever since been an issue. In the lack of clear and democratic rules of participation, i.e. how organisations were supposed to win a seat and how much relative weight they had in decision making, ÉT arguably could never function properly. Because of differences of membership-size and representativeness both on the employers' and on the employees' side, reorganisation of the sides based on proper legitimate rules became inevitable. As put by the experts of MGYOSZ: because of the internal controversies on the employers' side, negotiating partners and society at large became doubtful of the representativeness of employers' organisations in ÉT. The issue of settling the legitimacy problem of the sides at ÉT was put on the agenda in 1996, urged also by the government. In 1998 MGYOSZ drafted a plan of restructuring the employers' side, proposing that the nine employers' organisations in ÉT should divide into three groups, organised by areas of interest. The first group was to comprise organisations representing micro, small and medium enterprises, the second medium and large companies other than agricultural and the third agricultural employers. The proposal was accepted by the employers' organisations in ÉT, and some steps were taken towards this better structured and more unified system of representing employers' interests. The most important step was the amalgamation of MGYOSZ and MMSZ into the *Confederation of Hungarian Employers and Industrialists* (*Munkaadók és Gyáriparosok Országos Szövetsége*, MGYOSZ). In addition, the four organisations representing the self-employed and small enterprises (IPOSZ, KISOSZ, OKISZ, ÁFEOSZ) established the umbrella organisation the *Interest Representation Organisation of Small and Medium Sized Enterprises* (*Kis- és Középvállalkozások Érdekképviselői Szervezetét*, KÉSZ), but did not amalgamate into one united organisation. KÉSZ is only a forum run by the four organisations, which have retained their organisational independence. MOSZ and AMSZ, representing agricultural enterprises planned to create a similar umbrella organisation but then never did so (*Beszámoló... 1999*). Negotiations concerning a merger were commenced by VOSZ and STRATOSZ but only got as far as a cooperation agreement in 2000. Reportedly, following 1999 when STRATOSZ was admitted into OMT, it lost interest in the amalgamation process. Experts say that the resistance of some of the employers' organisations as well as the new interest reconciliation policy introduced by the Orbán government when it came into power in 1998 led to the failure of the reorganisation process. Since 1999, the issue of the legitimacy of employ-

ers' organisations has not been raised by any of the sides. The nine national employers' organisations have consolidated their positions as members of the national tripartite body, and *inter alia* as national level organisations.

Despite the failure of the full-scale reorganisation of employers' representation, the problems of divided representation, hence, the low level of efficiency in representing business interests has been frequently raised. In most cases, critics of the current system are calling for the amalgamation of the major interest representation organisations. It would appear, especially in periods when government policy is hurting the interests of business, that the calls for more efficient lobbying are getting louder. MGYOSZ itself proposed to set up the Hungarian Confederation of Employers to create a unified interest representation ([www.mgyosz.hu/progr/pr.php?fo=1&al=2](http://www.mgyosz.hu/progr/pr.php?fo=1&al=2)) in 2002, following the apparent failure of employers' organisations to effectively resist the minimum wage policy of the Orbán-government. In 2004 and 2005 the idea of unification was raised again, when the rapidly swelling budget deficit due to the loose spending policy of the government seemed to undermine the economic health of the country. Several leading businessmen called for a closer cooperation among employers' organisations. They proposed that national level organisations should cooperate more closely or even merge to improve their efficiency: a truly representative and powerful organisation could better promote a far-looking and multi-term economic policy, namely to be able to enforce a stricter budgetary policy. In particular the union of MGYOSZ and VOSZ, the two big organisations, was expected to create one lobby organisation that could more efficiently represent the interests of businesses (*Világgazdaság*, 10 August 2004). These negotiations, however, did not produce any results as far as closer cooperation was concerned. In June 2005 the newly elected president of VOSZ again raised the issue of harmonising the activities of employers' organisations in order to be able to force political parties to make consensuses over a long term economic development program (*Gazdaság – piac-profit.hu*, 16 June 2005).

Apart from the above mentioned nine national level social partners, there are two organisations active in important economic policy issues and assuming service provision and interest representation roles: the *American Chamber of Commerce in Hungary* (AMCHAM) and the *Hungarian Chamber of Commerce and Industry* (*Magyar Kereskedelmi és Iparkamara* (MKIK)). AMCHAM is primarily the organisation for American owned firms and for those with US based business partners or who are present in the US market in whatever form. AMCHAM is active in national economic policy issues, participates in public discussions concerning economic policy and is regularly consulted by the Hungarian government. MKIK was created in 1994, when Act XVI of 1994 re-institutionalised economic chambers, defining them as public bodies with compulsory membership. The law, however, did

not allow MKIK to represent the interests of its membership as an employers' organisation, but defined it as a public organisation providing services to enterprises. In November 2000, an amendment of the Law on Chambers cancelled compulsory membership. MKIK was reorganised as a voluntary organisation. Following 2000, public administration tasks were taken away from the chambers, but they have retained several public service responsibilities for undertakings. While after 2000 chambers lost 90 per cent of their membership, 43.000 companies have remained members. It is predominantly large firms that have maintained membership in MKIK ([www.mkik.hu/index.php?id=64](http://www.mkik.hu/index.php?id=64)).

National employers' organisations admit, occasionally even publicly, that they regard the chambers to be their rivals. Compulsory membership in chambers between 1994 and 2000 resulted in a membership drop in the employers' organisations representing small enterprises, as small entrepreneurs and businesses were not able to pay fees for both chambers and voluntary organisations. Additionally, chambers were given competences that earlier were provided by employers' organisations ([www.bonyhad.hu/20050701u02.html](http://www.bonyhad.hu/20050701u02.html)). For instance, in the area of education, one of the most important functions of IPOSZ, inherited from KIOSZ, was administering training for the master's qualification. In 1995, however, this competence was taken over by the newly set up chambers and is still undertaken by a company set up by the chambers. IPOSZ lost an important source of income, too. IPOSZ has ever since urged a separation of the master training in handicrafts from the master training package offered by the chambers. (See the introduction by IPOSZ president Gy. Szűcs at [www.iposz.hu](http://www.iposz.hu)). Furthermore, the question of what role the chambers play in interest representation has not yet been solved.

According to section 14 of Act CXXI of 1999, economic chambers shall not fulfil occupational, employer and employee interest representation. At the same time, chambers openly claim to represent business interests. The program of MKIK states that one of the goals of the organisation is the interest representation and the protection of Hungarian entrepreneurs (<http://www.mkik.hu/index.php?id=64>). At the time of the Orbán administration, between 1998 and 2002, the government frequently dealt with the chambers as employers' interest representation organisations, which provoked the objection of MGYOSZ and VOSZ (*Munkaügyi Kalendárium*, 2001). The president of MKIK makes it clear from time to time that the chambers should undertake interest representation even if the rest of the employers' organisations do not like it (Report with L. Parragh, *Kossuth Rádió*, 29 July 2005).

Despite sporadic calls for changes, the composition of the employers' side seems to be stable. It would appear that none of the organisations involved in the system is interested in changing it. As the partial failure of the reorganisation attempt in 1998–99 showed, any major change depends on whether the government would also support it, or would challenge the representativeness of some of the organisations or of the entire side out of some political consid-



eration. It seems, however, an unlikely move. One of the reasons is that the system seems to work seamlessly. The other is that the employers' organisations, in general, have not openly affiliated with any of the political blocks, thus none of the major political parties is politically interested in challenging the employers' interest representation organisations.

### *Membership and organisational structure*

*Membership.* Voluntary organisation led to significant losses in membership in those organisations that had covered a whole sector in the state socialist era. In addition whole sectors split off from some of the restructured organisations. For instance, savings and housing cooperatives, represented by SZÖVOSZ, did not join ÁFEOSZ.

The introduction of compulsory chamber membership in 1994 caused further serious membership drops in employers' associations, especially in organisations of micro and small enterprises. Based on information provided by the employers' organisations, the size of the various organisations is as follows:<sup>4</sup>

- *ÁFEOSZ* directly covers 1255 cooperatives and 62 groups of students' cooperatives, involving altogether 2000 stores in the Coop chain. Furthermore, it covers about 5 thousand individual franchise stores and catering units. Member organisations have set up 17 independent county associations. Through various agreements, the organisation represents 2500 cooperatives employing about 130 thousand employees, including savings and housing cooperatives (*Neumann* 2002).

- *AMSZ*, no data available.

- In 1988, *IPOSZ* had 167 thousand self-employed members through more than two-hundred regional and crafts corporations. In December 2004 about 50 thousand businesses belonged to *IPOSZ* through member organisations. Despite the fact that the number of members shrank to one-third, the number of member organisations has hardly changed. *IPOSZ* still has 260 member organisations, of which 229 are general regional and local crafts corporations operating in major cities; 31 member organisations are sectoral ones with a national reach.

### *IPOSZ*

*KISOSZ* represents and coordinates the activities of 22 member organisations (19 county organisations, 2 organisations in Budapest and 1 sectoral federation). Through 22 member-organisations currently 35 thousand undertakings are connected to *KISOSZ*, 85% of which are self-employed or small family partnership businesses. *KISOSZ* represents 270 thousand full time or part time self-employed persons in trade as well as businesses in trade and catering operating in various partnership forms. Its total coverage is claimed to be about one million persons, including both entrepreneurs and employees.

<sup>4</sup> No data is available on the size of the Agricultural Employers' Association (*Agrár Munkaadói Szövetség*, *AMSZ*)



– MGYOSZ is reportedly the main employers' organisation. Its structure still mirrors the fact that it was created as an amalgamation of two very different organisations. MGK, one of its predecessors, covered state owned enterprises and had over two thousand members in the socialist times through sectoral federations (*Gyarmatiné* 1998). The other predecessor, GYOSZ, which was a newly founded organisation for major domestic private companies, had about 100 direct member companies. In 1999, when the two organisations amalgamated, the new MGYOSZ had 54 professional organisations, 18 regional federations and 72 businesses with direct membership. MGYOSZ altogether represented 6000 enterprises employing nearly 1.2 million (*Beszámoló...* 1999). Currently several thousand companies belong to the organisation directly or indirectly.

– OKISZ also underwent a major shrinkage of its membership. At one time it had 3400 member-cooperatives, but in 2005 had only 980 member organisations, belonging to 22 regional or sectoral federations. It also has 6 affiliated sectoral federations. Altogether it covers more than 354 thousand employees and business owners ([www.okisz.hu](http://www.okisz.hu)).

– TOT, the predecessor of MOSZ represented all of the 1300 socialist agricultural cooperatives. MOSZ currently is composed of direct members, regional (county-based) and sectoral federations. The number of direct members of the current MOSZ is 600, and an additional 400–500 organisations belong to MOSZ through county federations, and 1400 undertakings are connected to MOSZ through six sectoral federations. Altogether, through sectoral and professional federations, about 2000 organisations belong to MOSZ indirectly. None the less, some businesses are members both directly and through regional or sectoral federations. Direct members employ nearly half of all, about 48 thousand, working in the sector and direct and indirect members produce largely half of the total agricultural production. MOSZ claims that it represents all of the 300 thousand members of cooperatives and successor firms and 100 thousand owners in member organisations. At the same time, however, its membership has been decreasing, with 50 to 60 cooperatives going bankrupt annually.

– At the time of its setting up in 1994, STRATOSZ had 100 member companies employing over 750 thousand. In 2002 its membership was made up of three federations and 36 companies ([www.stratosz.hu](http://www.stratosz.hu)). STRATOSZ members produce 38 percent of the GDP

– VOSZ has 7,934 direct individual or business partnership members, employing 26 percent of active earners and producing 31 percent of GDP. Adding the 28,862 member companies registered in member organisations, companies represented by VOSZ employ 43 percent of active earners and produce 64 percent of the GDP ([www.vosz.hu](http://www.vosz.hu); *Gazdaság – piac-profit.hu*, 16 June 2005).

*The heterogeneity of the membership structure.* The speciality of the Hungarian structure of employers' organisations is that six out of nine came to exist through the reform of monopolistic organisations of the state socialist regime. These organisations essentially retained the main organisational profile and organisational structure of their predecessors. Their special way of organising was the so called "federation of federations". ÁFEOSZ, OKISZ, MOSZ and KISOSZ inherited a regional (county-based) structure while IPOSZ had both sectoral and regional (county-based) structures. In MGK, member organisations established regional (county-based) and sectoral organisations as early as in the 1970s and '80s as a result of which MGK became a confederation of sectoral and regional organisations. This structure was retained by the Hungarian Employers' Association (MMSZ) and MGYOSZ.

In the newly established employers' organisations (VOSZ, GYOSZ, AMSZ), member companies joined the national organisations directly. Sectoral and regional organisations were created later, if at all.

MGYOSZ, which was created by the merger of two associations, has a mixed structure: it has both direct member companies – mostly large firms that used to belong to GYOSZ – and indirect members belonging to professional and regional federations, with a structure inherited from MMSZ.

Membership is voluntary in each of the organisations, and one of the statutes prohibits dual membership. In the context of low membership fee payment requirements, this peculiarity has led to a situation that bigger companies may have multiple membership in more than one national association. Furthermore, in national organisations with both direct membership and regional and sectoral member federations, companies are frequently members of a sectoral as well as of a county or regional federation, and sometimes have even direct member status. It is not only companies that may have multiple affiliation, but a number of sectoral federations are members of several national level employers' associations.<sup>5</sup>

Another feature of the statutes of employers' associations is that membership is regulated only for the national level confederation, but member federations are free to set their own criteria of membership, as well as the rules of operation.

The statutes of the majority of employers' organisations recognise several legal statuses of membership. In addition to regular membership, there is associated, supporting or registered membership, which involve full or partial exemption from the paying of dues.<sup>6,7</sup> As a result, multiple membership and the various types of membership having different conditions of paying membership dues are the norm everywhere. This practice makes it largely impossible to add up the number of members of the various employers' organisations in order to know the coverage of the given organisation. This makes it also impossible to appropriately calculate the relative weights of employers' organisations.

5 For instance the National Federation of Hungarian Contractors (ÉVOSZ) is a member of MGYOSZ, IPOSZ, VOSZ and OKISZ. The Hungarian Federation of Furniture and Timber Industry is a member of MGYOSZ, VOSZ and IPOSZ. Eight of the Volán companies are members of STRATOSZ and – along with the rest of Voláns – belong to the Federation of Transportation Companies, itself a member of MGYOSZ. 3 of the 39 member organisations of VOSZ are crafts corporations and are members of IPOSZ, and some of its professional federations, such as ÉVOSZ, are members of MGYOSZ; STRATOSZ is a member too. The Hungarian Association of Packaging and Materials Handling and the Hungarian Light Industrial Association are members of both MGYOSZ and OKISZ.

6 In IPOSZ supporting members are required to pay a supporting membership due, set by the presidium along with the members' entitlements to services. Registered members pay a registration fee. Associated members do not pay membership dues at IPOSZ and STRATOSZ. In VOSZ, there are no rules on how much supporting members pay, who can themselves decide on the annual amount they pay to VOSZ. An associated member of VOSZ may request the same rights and obligations as regular or supporting members.

7 In the county Komárom-Esztergom organisation of MGYOSZ the annual due of supporting members is HUF 30 thousand, one third of the regular membership due. A special solution is STRATOSZ' priority membership: priority members pay higher dues than regular members but may delegate two thirds of the presidium.

*The constituencies of employers' associations.* Most of the organisations that had existed before the transition have retained their profiles as far as their constituency is concerned. The new organisations have retained their focus on the group of companies which they targeted at the outset, with the exception of VOSZ, which changed profiles in 1998 in order to broaden its representative area.

Members of *AMSZ* are self-employed entrepreneurs, business partnerships, education and training institutions, agricultural research and development facilities, universities, water management associations, regional organisations of agricultural producers, self-employed and farmers.

- *ÁFEOSZ* primarily represents small and medium sized enterprises in trade. Its members are general consumers' cooperatives and their businesses as well as retailers who are connected to this chain of commerce. Only *ÁFEOSZ* members can be part of the supply chain and purchase at preferential prices. Employers and enterprises belonging to *ÁFEOSZ* are active in the sectors of agriculture, game and forestry; manufacturing; construction; trade and repairing; hotels and restaurants; financial intermediation; real estate and renting; education; other services.

- *IPOSZ* is the interest representation organisation of micro, small and medium sized enterprises. Its members primarily work in construction, services, taxi and road transportation, wholesale and retail trade, hotels and restaurants.

- *KISOSZ* represents micro, small and medium sized enterprises in trade and hotels and restaurants.

- *OKISZ* represents industrial cooperatives as well as small and medium sized enterprises working in various business forms that were formed out of the coops. Member enterprises operate in the machine industry, chemicals, light industry, construction and services.

- *MGYOSZ* represents enterprises in all areas of the competitive sphere. A criterion of membership is that the business should have more than HUF 50 million of capital or an annual sales revenue of HUF 500 million. Some member organisations, such as *ÉVOSZ*, do not set a revenue threshold.

- *MOSZ* is the representative organisation of agricultural cooperatives. None the less, to broaden its constituency, it also claims to represent the interests of businesses, the self-employed and small scale producers in the sector.

- *STRATOSZ* is the organisation of public utility companies with a strategic importance. It is active in 12 industries of the national economy, the most important of them being telecommunications and informatics, post and road and railway transportation, energy and media.

- *VOSZ* had been the representation organisation of domestic privately owned small and medium sized enterprises as well as of business partnerships. In 1998 it changed its recruitment strategy to be an all-inclusive national lev-

el confederation to match MGYOSZ. It declared that it recruited all kinds of enterprises, regardless of size and ownership structure. By engaging in the organisation of vocational training and becoming a partner in the government program designed to facilitate SMEs to obtain preferential credit (the so called Széchenyi Credit Card program) it has managed to recruit a substantial number of the self-employed and SMEs. 88 percent of the VOSZ membership are enterprises in Hungarian majority ownership and only 2 percent are foreign owned ([www.vosz.hu](http://www.vosz.hu)).

*Financial situation, infrastructure and organisation.* The major sources of revenues of employers' organisations are as follows: membership dues, inherited assets, market services and project grants.

*Membership dues.*

- No data is available on membership dues of *AMSZ*.
- The annual membership due in *ÁFEOSZ* ranges up to HUF 600 thousand, primarily depending on the size of the member's assets.
- Regular members (general and professional crafts corporations, regional federations) of *IPOSZ* pay HUF 18 thousand a year as a basic due.
- In the county organisations of *KISOSZ* enterprises pay HUF 300 to 1000 a month, depending on the number of employees. County organisations contribute to running the national centre. These transfers, however, cover only about 10 percent of the centre's budget.
- In *MGYOSZ* the annual due for direct members is HUF 300 thousand, and the due payable by association type member organisations is HUF 360 thousand to 960 thousand, depending on the number of employees, the membership due revenues of the association and the number of represented organisations. Regardless of the size of the contribution, each member association has one vote. One third of the revenue of *MGYOSZ* comes from the dues.
- Member organisations of *OKISZ* pay HUF 10 thousand annually. The revenue from membership dues covers 10 percent of the annually approximately HUF 100 million budget.
- About half of *MOSZ*' budget is financed from membership due revenues.
- The annual priority membership due in *STRATOSZ* is HUF 600 thousand to 4 million and the annual regular membership due is HUF 100 thousand to 400 thousand. In both cases the exact amount depends on the previous year's net sales revenues. Associated members are not required to pay.
- The minimal membership due in *VOSZ* is HUF 12 thousand, and HUF 20 to 40 thousand annually for companies with a net sales revenue of up to HUF 50 million. In extraordinary cases, the presidium may reduce or cancel the membership due. For large member companies, the amount of the due is a matter of agreement. Many organisations, however, fully or partially pay for membership by providing services, for instance professional federations

provide experts' services. Less than 30 percent of VOSZ' annual budget is financed from membership due revenues.

The amount of the membership fee is quite low at all employers' associations. Small and medium sized members of VOSZ and the federations in IPOSZ pay hardly more than an employee pays as a trade union due. Despite the rather low level of fees, several organisations have complained that companies do not always regularly pay. Several organisations, for instance MGYOSZ and VOSZ, accept experts' services, organising events and other services for the organisation as a form of payment of membership fee. No wonder, membership fee revenues usually cover only one third of the annual budget of the organisations. In order to survive, employers' associations need additional sources of revenue other than membership dues.

*Inherited assets.* The role of assets and property inherited from the socialist period is important for the successor organisations in securing their day-to-day functioning. ÁFEOSZ, IPOSZ and OKISZ inherited large real estate properties, which provide them with office space and in some cases with revenues from renting office space.<sup>8</sup>

The newly established organisations, however, do not have the advantage of inherited office space and property. Given the low level membership fee resources, these organisations can easily find themselves in a dire financial situation, which in turn has an unwanted impact on their functioning – namely they are financially dependent. This danger is well illustrated by the case of VOSZ: in the period before 1997 VOSZ was practically a political and business lobby organisation of one businessman, who paid all the costs of operation and used VOSZ as a vehicle for his personal political ambitions and lobby interests.

*Business services.* Most employers' organisations provide business and education services related to their interest representation activities. ÁFEOSZ, for instance, maintains a training firm (Cooperative Educational and Services Ltd, SZÖVOK) and a vocational training school. A public benefit company set up by IPOSZ organises training courses, and the Plc. owned by IPOSZ provides intermediation services on a market basis (organising suppliers, finding manufacturing capacities for foreign businesses etc.) KISOSZ organises training courses in several trading professions to help members earn the certificates that are required to obtain a business license. Organising events and other market services is a considerable source of revenue for MGYOSZ. County organisations of VOSZ have independent budgets and have to ensure their own revenue the main source of which are market services. Income from business services is an important source of revenue and of legitimacy for the employers' associations.

<sup>8</sup> The majority of operation costs of IPOSZ are financed from its hotel businesses. Half of OKISZ' expenditures are financed from real estate development. MGYOSZ inherited two headquarters buildings, where the central office and most of the member organisations have the premises.



*Grants and tendering for public support funds.* The various grant programs, including governmental support for the organisations participating in tripartite interest reconciliation bodies, play an increasingly important role in the budgets of employers' organisations. Since the 2002 change of government, resources distributed through tenders available for employers' organisations in the National Interest Reconciliation Council "to support interest representation activities" have considerably grown.<sup>9</sup> Furthermore, participation in international projects has increased, which involves substantial targeted supports for certain activities. Admittedly, in general as much as 10 to 50% of the revenue of national level employers' associations comes from various government supported schemes and funds.

*Staff.* The size and mix of revenues largely impact the size of the staff working in central headquarters and the division of work at these organisations. With membership due revenues, inherited assets, grants and market services, national organisations have been able to set up a small but stable staff.

Sectoral and regional organisations, however, are in a much more difficult situation as their main revenues are small membership dues and market services. In sectoral and regional employers' organisations, which collect only small dues, the activities of the organisations often depend on the leaders' personal or business resources. At the same time, some of these organisations represent only one person or a small group of entrepreneurs (*Hámmor* 2004). In the following section the main information on the staff of the various organisations will be summarised (There is no information available on *AMSZ*)

ÁFEOSZ in its centre has 23 staff and their main responsibilities are interest representation. The economic secretariat provides assistance in legal, taxation and other issues.

The IPOSZ centre has a staff of 25, of whom 6 or 8 are experts. Including local crafts corporations, IPOSZ altogether has 400 full time employees.

The KISOSZ centre employs 11, of whom 4 are experts. The staffing of county organisations ranges from 3 to 20. *KISOSZ* altogether runs 70 county and city offices.

MGYOSZ has a full time staff of 20 and 2 more work in the Liaison Office in Brussels. 15 of the staff in Hungary are experts and 5 are in administrative jobs. The more than one hundred professional organisations have 2 to 5 full time employees each.

The OKISZ centre once had a staff of 550, and currently employs 13 full time, 9 of whom are experts. Of the 22 county federations only 2 have a full time president.

The full time staff of *MOSZ* has dropped from 40 to 20, of whom 12 are experts. Its 20 regional and 4 sectoral federations have 160 full time employees.

STRATOSZ maintains a small central staff.

<sup>9</sup> In the case of IPOSZ, the amount of money won in grant programs has grown by 70 per cent over recent years. Also, grants collected by MGYOSZ have grown considerably and currently finance half of the budget.

The VOSZ centre employs 9 of whom 5 are full time, including the two executive leaders. 50 work in the county or regional offices.

### *Roles and functions*

*Participation in national tripartite interest reconciliation.* It is their place occupied at the macro level that determines which organisations, politicians, international institutions and public opinion regard them as social partners. Understandably, employers' organisations mention tripartite institutions first when referring to tasks or achievements.

Participation in national tripartite interest reconciliation is:

- an opportunity to lobby in economic, social and labour law legislation;
- and opportunity for organisations in the National Interest Reconciliation Council to directly negotiate with the government;
- a route to several bodies and fora set up on the tripartite model;
- participation in various bodies is an opportunity to lobby on concrete issues in the interest of companies belonging to the organisation;<sup>10</sup>
- an opportunity to build up contacts with the central state apparatuses;
- help member companies to develop their markets through international contacts;
- and last but not least, it is a route to several institutional privileges including central grants through competition programs, which are very important for the organisations.

Experience has shown that organisations on the employers' side have been almost always able to form and represent a common stance with respect to specific issues and agendas. In an interview, a representative of one of the employers' organisations said that the authority of the organisations within the employers' side is determined by their contribution to GDP, foreign trade turnover and employment. No doubt, this approach favours organisations of large export oriented companies. At the same time, the profile of membership is decisive too for the interest representation activities of the organisations: ÁFEOSZ for instance primarily represents trading company members while IPOSZ mostly represents micro and family handicrafts businesses.

Tripartite interest reconciliation as a whole works on the basis of consensus making including issues in which the government is not statutorily required to cooperate. At the same time, however, the government often failed to respect the agreement made between social partners or took measures unilaterally before negotiations between social partners had been terminated. The clash of interests between the government and the social partners became especially apparent when the Orbán government increased the minimum wage by an unprecedented percentage. Analysts agree that generally the current government is the main driving force in tripartite negotiations. As the authors of a publication put it, one of the most important characteristics of interest recon-

10 One illustration is the intervention made by the Association of Industrialists in a train tender. See the article in the Index. "Flirtgate: MGYOSZ delegates protect MGYOSZ member." The article explains that in a railway tender procedure the MGYOSZ representatives kept voting for the Stadler company, an MGYOSZ member, against Bombardier (<http://index.hu/gazdasag/magyar/mavkoz05072/>).

ciliation is that both its agenda and institutions change as a function of what the current political power wants them to be (*Érdekvédelmi...* 2004). Not surprisingly, in recently reiterated proposals for merger employers' organisations have urged for a more efficient joining of forces against the government and for a more foreseeable governmental policy.

The real objective of employers' interest representation at national interest representation fora is more than just to give their opinion. Organisations tend to use tripartite fora ever more forcefully to influence the government's economic policy. They also want to influence legislation as well as strengthen the influence of the sphere of economy as a whole on political decisions.<sup>11</sup> The employers' economic philosophy that has developed over the past years is advocated ever more vigorously in the debates of the National Interest Reconciliation Council and in the media. Employers' organisations, more or less unanimously, argue for an economic policy that helps export-oriented economic growth through appropriately set exchange rates and interest policy as well as for cutting taxes and income taxes and for making the labour law more flexible to strengthen competitiveness. They are unanimous that reducing the burden on enterprises should be the primary resource of cutting public expenditures and reforming state finances.

Accepting these proposals, however, depends on the good will and cooperation of the government and of political parties backing the government. Employers had to learn a lesson when, in the years between 2000 and 2003, national politics could easily disregard the protest of employers' organisations against the rise of the minimum wage and in general the rise of wages above GDP growth. One of the most important arguments for the amalgamation of organisations is that it would help them become more powerful against the government.

At the same time, the functioning of employers' organisations increasingly depends on central support which makes it easy for the government to manipulate employers' organisations. MGYOSZ objected that the government upset the balance of power on the employers' side by "dumping central support on persons and smaller organisations having a good relationship with the government while trying to marginalise MGYOSZ".<sup>12</sup>

Similarly to trade unions, the statutes of employers' organisations usually declare political neutrality. For them it is always the current government that is the most important partner. Of course, the various organisations have political connections, sympathies and ambitions, which can be discovered by looking at under which government their top officials become members of governmental advisory bodies, at which civil organisations' programs they participate or whom they let use their premises. It seems, however, that only VOSZ between 1990 and 1997 tried to play a direct political role apart from representing employers' interests. Undoubtedly, refraining from participat-

<sup>11</sup> See for instance the MGYOSZ programme at [www.mgyosz.hu](http://www.mgyosz.hu).

<sup>12</sup> The history of MGYOSZ, see [www.mgyosz.hu](http://www.mgyosz.hu).



ing in political in-fights paid off as the government did not try to radically restructure the employers' side of macro level interest reconciliation.

*Sectoral level interest reconciliation.* Creating sectoral level interest reconciliation fora, on the model of the national level, has been on the agenda since the change of the regime. First, ministerial level interest reconciliation fora were organised between 1992 and 1995, primarily in the public sphere. In the competitive sphere only three fora were set up: the Agricultural, Food and Timber Industrial Interest Reconciliation Council (Földművelésügyi, Élelmiszeripari, Fagazdasági Érdekegyeztető Tanács, FÉT), the Industrial and Commercial Interest Reconciliation Council (Ipari és Kereskedelmi Érdekegyeztető Tanács, IKÉT), and the Transportation, Communication and Waterworks Interest Reconciliation Forum (Közlekedési, Hírközlési, Vízügyi Érdekegyeztető Fórum (KHVÉF). These ministerial level tripartite fora were usually consultation bodies and were sometimes the arena for direct interest negotiations and wage bargaining, especially in the budget and public utility spheres. The system of political rotation, however, hit these institutions hard. Despite the problems caused by restructuring the ministries by every new government (see *Érdekvédelmi ... 2004*), the bodies in construction and agriculture function more or less regularly. Apart from employer and employee organisations participating at national interest reconciliation, sectoral, professional and employers' organisations participate at these fora, and the ministries regard them as important partners.

To improve the intermediate level of social dialogue in the business sector, a PHARE project helped to set up the so called sectoral dialogue committees. In the case of employers' organisations, the criteria or representativeness were first specified in connection with participating in the sectoral dialogue committees. The criteria are the number of their employees, net sales revenue, number of members, history of participation in interest reconciliation, belonging to a national employers' confederation in the National Interest Reconciliation Council and having international relations. A further criterion is the share of employees covered by collective agreements signed by the given organisation (see: *Érdekvédelmi ... 2004*).

When the sectoral dialogue committees were set up, each of the national employers' organisations tried to strengthen their existing sectoral organisations. VOSZ launched an especially large scale organising campaign to be able to ensure its participation in the most possible sectors. Employers' organisations that earlier had only regional federations or direct company members made considerable efforts to create their own sectoral (professional or sub-branch) federations.

Employers' organisations primarily see sectoral dialogue committees as consultation and information fora that may give them the opportunity to influence government level sectoral strategies. In contrast, trade unions hope

that sectoral dialogue committees can become bodies for sectoral collective bargaining.

*Regional interest reconciliation.* Regional development is a new dimension of interest representation for employers' organisations: in the debates on the directions and programs of economic development they have the opportunity to make their lobby points. According to the EU norms of regional planning, partners must be consulted at each of the stages of development. According to the National Development Plan, the target groups to be involved in the development of the operational program include regional employers' and employees' organisations as well as the national level representatives of social partners. In the implementation phase, regional institutions to be established will take over the implementation of the *regional operational programs* to be financed from the EU Structural Funds (Winkler 2003). In other words, this is where the tripartite principle is put in practice with the involvement of employers' and employee' interest representation and of regional local governments. Building the institutions in connection with regional development plans has encouraged employers' organisations to create a corresponding internal organisational structure. For instance, the county organisations of KISOSZ have set up interest reconciliation bodies in all of the seven statistical regions. In the National Development Plan Committee, set up within the framework of the National Interest Representation Council, IPOSZ actively represents the interests of micro, small and medium sized enterprises.

*Services to members and business and education services.* Market related services, business management, education and information services provided by the organisations are important for member companies. To be able to survive and retain membership in the long run, organisations must become service oriented and manage services in the way a large company is managed. As seen, revenues from membership dues are not enough to finance the solid running of any of the employers' organisations. Employers' organisations that have failed to develop their market services have been forced to consume their assets and operate at a low scale. VOSZ could rapidly grow after 1998 because it put an emphasis on services to meet the needs of its membership and on running regional (county and local) and professional sections (Gazdaság – piac-profit. hu 16 June 2005). Employers' organisations have developed a wide range of services. County and local offices of organisations of small enterprises assist members in labour law, taxation and social security issues. Typically, newly joining members are given a service package and are helped to start up their businesses (obtaining licenses or getting them faster through contacts), and assistance in cases of disputes or inspection by the Tax Authority. Furthermore, KISOSZ and IPOSZ provide book-keeping services to their members. ÁFEOSZ provides economic, legal, taxation and accounting consultancy serv-

ices tailored to member organisations' needs, helps trading businesses adapt to the local operating conditions, provides education and training courses as well as training in the school system. VOSZ provides a wide range of free and payable services too (national and local level information, training, match-making for businesses, international market research etc.) Recently services have been expanded to include the assistance for enterprises to link in international chains and cooperation with large companies (suppliers' program), introducing the entrepreneurs' credit card (Széchenyi card) and developing a broad electronic servicing network. Almost all employers' organisations help their members to enter markets through organising fairs, conferences and exhibitions.

Education and vocational training are important services at each of the organisations; due to frequent changes in the law, compiling and publishing manuals to promote lawful activities is an important service as well as a revenue resource.

Several employers' organisations have set up companies to pursue business activities. For instance, IPOSZ has set up a share holding company while VOSZ has organised part of its business activities in Kavosz Plc. owned jointly with MKIK. International contacts are a help in lobbying in Hungary, in knowing foreign models and finding the best solutions. Furthermore, bilateral relations help member companies obtain business information and in finding potential business partners. Participation in national tripartite bodies opens up the way to government level delegations in charge of market development.

*Bipartite industrial relations.* "Classical" industrial relations play a rather unimportant role in the activities of employers' organisations. Negotiations and collective bargaining with trade unions are only a marginal concern for employers' organisations.

In contrast to their counterparts in developed market economies, today's Hungarian employers' organisation have not been organised as a counterweight to trade unions. Five of the nine employers' organisations are the legacy of the socialist system, which at the time of the change of the regime had considerable assets, staffing and continuous revenues from membership dues. What these organisations wanted to do was partly to continue their market related services in a new form and partly to find their places in interest representation against the state. The first arena and source of legitimisation for this was the Interest Reconciliation Council, set up in the summer of 1990. New employers' organisations were not set up to challenge trade unions but to represent political interests as well as the business interests of particular groups of businesses.

At the time of the crisis in the early 1990s and the restructuring of the old socialist organisations and business organisations trade unions dramatically

weakened. Loss of membership was especially visible in the competitive sphere. While at the member companies of MOSZ, IPOSZ and VOSZ there are no, or hardly any, trade unions, typically unions are present only in professional associations or large companies that are members of several organisations. In the successor organisations of industrial cooperatives belonging to OKISZ there are no trade unions ([www.okisz.hu](http://www.okisz.hu)). Furthermore, as evidenced by statistics on strikes and demonstrations, radical union demands at the workplace level are hardly ever a serious challenge for employers' organisations while sectoral and national trade union actions were targeted at the government rather than the employers' organisations.

The arena of dispute and conflicts between the employers' organisations and trade unions is the national interest reconciliation forum, but in most cases, such as determining the minimum wage, making the national wage recommendations or amending the labour law, the government plays the decisive role. Quite frequently, social partners in the Interest Reconciliation Council seemingly negotiate with one another while in the background employers' organisations are trying to make a deal with the government to obtain a tax cut or budget support in exchange for wage concessions to trade unions.

Given that the self-employed are both employer and employee at the same time, bipartite industrial relations are irrelevant for associations of small enterprises. For retailers, collective agreements do not play any role at all. It is a general opinion that retailers are not interested in concluding a collective agreement because it does not provide any advantages but rather costs extra money. Even larger companies try to settle disputes outside court on the basis of mutual trust rather than through a liability insurance policy – no matter that theoretically it would be in the interest of the employer. It is not surprising that employers' organisations' documents or statements hardly ever mention trade unions.

The rather vague expression "cooperation in tripartite bodies", introduced by STRATOSZ, is the wording most frequently used in the documents of employers' organisations if trade unions are mentioned at all. When speaking specifically about the representation of employers' interests, as different from business interests, MGYOSZ primarily mentions participation at tripartite interest reconciliation fora. At the same time, it makes two important restrictions concerning agreements: 1) MGYOSZ can sign agreements only if authorised by members; 2) its representation and other activities may not violate the autonomy, decision making and acting, representation and procedural freedom of member organisations. These two restrictions imply that MGYOSZ cannot sign any meaningful agreement without the concrete authorisation of its members.

Notwithstanding the above generalisations industrial relations are important for the various employers' organisations because of the specific type of

trade union and organisation of member companies they have to deal with and because of a variety of problems to be solved. For instance, ÁFEOSZ regularly warns that collective agreements are definitely worth making because of inventory liability. Authorised by the statutes, in 2003 MOSZ signed an agricultural collective agreement covering the direct members and also members' employees. While it reported no trade unions at its member companies, OKISZ signed an agreement with the Alliance of Autonomous Trade Unions to make working time flexibility possible.

In construction, the organisations fight against black employment by signing a sectoral collective agreement. The initiative, developed in the sectoral dialogue committee, became part of the "100 steps" program of the Gyurcsány government. If a sectoral collective agreement will really be concluded and proves to be efficient in regulating employment in the whole sector, it could become a model for the rest of the sectors and thereby could change the general view on the role of industrial relations. Employers' organisations seem to have reconsidered their roles and see black employment as a problem and are trying to remove the competitive advantage small enterprises have by using black employment.

One reason why industrial relations are not equally important for the various employers' organisations is the organisations' idea of themselves. The difference in the attitudes of MGYOSZ and STRATOSZ is remarkable. The members of both organisations are typically big companies with trade unions, but the two employers' organisations deal with trade unions very differently. It is clear from its documents that STRATOSZ pays hardly any attention to trade unions while MGYOSZ considers industrial relations issues important and maintains regular contacts and talks about current issues with MSZOSZ, the biggest trade union confederation in the business sector. This helps maintain the image that MGYOSZ is the most important employers' organisation in this sector. VOSZ has adopted a similar approach and signed a cooperation agreement with the National Federation of Workers' Councils and LIGA which it renewed in 2004.

### *Summary*

While employers' organisations are very different in terms of traditions, membership mix, relations with their members, responsibilities and the structure of services which they provide they do share some characteristics that are decisively important in understanding the nature of post-socialist industrial relations.

- Both employers' and trade unions' organisations are pluralistic and fragmented, including old and new ones.
- As opposed to deeply politicised trade unions, employers' organisations have avoided the turning of internal power relations into political fighting following the regime change.

- Refraining from visible infighting was also a means of not letting potential organisational and personal clashes become too acute and hinder reasonable cooperation.

- In the 1990s, employers' organisations developed their business management and service providing functions that are key to retaining membership and consolidating finances.

- Partly as the legacy of the socialist period, the memberships of the organisations are well separated and therefore the organisations are not rivals when attracting members, except for VOSZ, to a certain degree. Because of low membership dues and various membership statuses involving different due payments, however, the competition between employers' organisations has led to multiple membership rather than to draining members away from other organisations.

- Similarly to the internal structure of trade unions, member organisations and member companies of employers' organisations are fully autonomous in defining their policies. According to the statutes, they have the right to decide on the centre's policies and the centre's decision power depends on members' authorisation. The centralised structure of the historical GYOSZ is unknown in the employers' organisations developed following the regime change. It is the decentralisation of employers' organisations that is an impediment to the system of sectoral collective agreements which – in the opinion of trade unions and several researchers and politicians – could truly regulate employment relations.

- While the memberships of the various organisations are clearly separate at the national level, this is not true for the sectoral or professional level. Under socialism, employers' were organised by form of ownership and not by sector. As a heritage, there are still several employers' organisations or their sectoral and professional federations in most sectors. This legacy has created a non-transparent and fragmented structure leading to potentially severe interest conflicts.

- It is difficult to know how organised employers are, not only because internal statistics are imperfect and the organisations are reluctant to disclose membership data but also because of multiple membership and the using of a variety of membership categories. Revenues from membership dues are not enough in any of the organisations to enable them to operate properly, not even together with central support and revenues from inherited assets. The interest representation function does not seem to appeal enough to enterprises in Hungary to maintain employers' organisations.

- One of the most important functions of employers' organisations is representing business interests at the national level and to influence the government's economic policy in order to create conditions that are favourable for businesses. By the turn of the millennium, employers developed a largely



uniform concept of the economic policy that Hungary should pursue. One of the most important fora of business interest representation is the National Interest Reconciliation Council in which the ambitions of employers' organisations clearly go beyond giving their opinion on the issues on the agenda and increasingly want to play a role in defining the strategic guidelines of the economy.

- Participating in the system of tripartite bodies is of decisive importance for employers' organisations. On the one hand this is because it involves certain advantages, such as membership in important bodies, opportunities to lobby and access to central support given through competitive grant programs. On the other hand, the broad agendas mostly include economic policy, social policy and labour law regulations that are important for employers.

- The dependence of employers' organisations, however, on participation in tripartite interest reconciliation and on the related organisational advantages impacts the autonomy of these organisations and makes them vulnerable to the government.

- In most employers' organisations interest representation closely intertwines with market related and business management service provision functions; in fact, these services are the greatest appeal to companies and often the greatest source of revenues.

- In addition to these two functions – business interest representation and market related services – the issue of traditional relations between employers and employees is of only secondary importance, if it plays any role at all in the lives of employers' organisations. Most employers' organisations regard trade unions only as one actor in the tripartite arena rather than a partner in the bilateral regulation of the labour market and employment relations.

The structure of employers' organisations has by now solidified and has fitted in the system of institutions. The organisations have found the functions and economic resources that ensure operations in the long run. A problem, however, is that employers' organisations are divided and weak in terms of organisational and expert resources as a result of which they are much less capable of influencing economic policy than their counterparts in developed market economies. One major cause of this is the extremely fragmented and largely inefficient interest representation system. The cooperation between employers' organisations and entrepreneurs is indispensable for successful interest representation. What they need to do is to develop and introduce an economic strategy that reaches over government terms. Interest organisations can only make themselves recognised as true partners of the government if they join forces and develop proposals that live up to high professional standards.

## 1.2 The Hungarian Trade Unions and Their Future Options

LÁSZLÓ NEUMANN

Today, over fifteen years since grassroots independent trade unions first appeared and the trade unions of the socialist regime started to reform themselves in Hungary, the Hungarian union movement seems to be more fragmented, weaker and lacking in funds than ever. According to several experts because of their ever declining popular support and internal organisational problems, trade unions are not able either to exercise any considerable influence on national politics nor to fulfil their interest representation role – in the strict sense – at the workplace and conclude collective agreements that effectively regulate wages and terms and conditions of employment. This chapter will focus on the internal sources of trade unions' strength: membership and organisation. The author will rely on statistics, mapping studies made in preparation for setting up the sectoral dialogue committees as well as on personal experience and subjective evaluation.

After presenting membership statistics and the organisational models, the chapter will discuss the possible strategies of revitalising trade unions. It is our strong belief that it would be too early to write off trade unions altogether notwithstanding all their current weaknesses: without them there would not be industrial relations in the classical sense. Despite their current weakness, the potential ensured by their remaining membership and assets as well as the system of industrial relations institutions formed since the change of regime and help from their political allies may serve as the basis for renewal. With Hungary's joining the EU, domestic forces and institutions have been given powerful external support. Nevertheless, it has to be clearly seen that these very same forces may help preserve the current organisational frameworks unchanged or even weaken them over time.

### *Quantitative evaluation: The decline of union membership*

While the strength and influence of the trade union movement depends not only on its membership size and workplace presence (c.f. for instance France), examining changes in membership is a commonly accepted method of evaluation. Membership size is especially important in Hungary, where there are no historically embedded institutions and thus the relative weight of trade unions is mostly measurable by their organisational coverage. There are several methods to measure membership size. An evident way is to ask the organisations themselves about the number of paying and non-paying members and add up these "self-reports". *Table 1.1.* shows the figures of active age members and the share of female members given by the six trade union confederations represented in the National Interest Reconciliation Council in early 2003:



**Table 1.1: Number of active age union members as reported by union confederations**

Confederation	1998	2003	Share of women (2003, per cent)
Alliance of Autonomous Trade Unions (Autonóm Szakszervezetek Szövetsége, ASZSZ)	140 000	120 000	35
Confederation of Unions of Professionals (Értelmiségi Szakszervezeti Tömörülés, ÉSZT)	105 000	85 000	n. a.
Democratic League of Independent Trade Unions (Független Szakszervezetek Demokratikus Ligája, Liga)	100 000	100 000	30
National Federation of Workers' Councils (Munkástanácsok Országos Szövetsége, MOSZ)	60 000	56 000	35
National Association of Hungarian Trade Unions (Magyar Szakszervezetek Országos Szövetsége, MSZOSZ)	n. a.	240 000	48
Trade Unions' Cooperation Forum (Szakszervezetek Együttműködési Fóruma, SZEFE)	230 000	270 000	70

Source: EIRO (2003).

While reformed old trade unions have a significant share of retired employees for whom some of the sectoral and company organisations maintain separate sections, it seems reasonable to leave them out of the calculations of the bargaining force of a trade union. As double membership is practically impossible, adding up the figures given by the confederation plus the estimated 35 thousand members of trade unions outside the confederations will give the total of union membership. Using the Labour Force Survey (LFS) data of the Hungarian Central Statistical Office on the estimated union coverage the level stands at 23.2 percent. At the same time, however, unions are known to inflate membership figures in order to stress their significance even at the expense of paying more membership dues to international organisations. Some unions make membership figures confidential information. It therefore seems expedient to use more objective methods. (As proved later, real membership is about half the self-reported figure.)

The most accurate figure of the total of earning and due paying union members is published in the annual report by the Tax Authority (*Table 1.2.*). As the membership due deducted by the employer features in the annual personal income tax return, it is possible to calculate the number of due payers and the total amount of paid dues. (To be more accurate, the figures tell how many opted for the tax deduction but as in Hungary check-off is the general practice, i.e. the employer deducts the membership fee from the employee's wage, the two statistics are more or less the same.) The annually published figures show a fairly steady decline in union membership.

Tax Authority figures show that due paying membership dropped by 25 percent over the four year period between 1999 and 2002. Calculated by the HCSO figures of the total of employees, union coverage in the last year of the period was as little as 15 percent. The series of data of the Tax Authority

also shows the drastic drop in membership: in 1990 as many as 3.9 million persons paid the union membership due.

**Table 1.2: The number of due paying members in Tax Authority reports**

Year	Number of members	Year	Number of members
1999	775 000	2002	574 000
2000	700 000	2003	600 000
2001	654 000		

Source: *Kun* (2003).

As of 2001, the HCSO LFS includes a set of questions every three years on the role of employee interest representation. The estimation for the whole population based on the answers of about 30 thousand respondents, have produced very much the same results as Tax Authority records, based on the data base of the total population – despite the fact that in the HCSO survey the “don’t know” answer was relatively frequent, especially if the questionnaire was answered by a family member in the absence of the originally designated respondent. (*HCSO* 2002, 2005) The HCSO Survey is especially useful as, in addition to basic information on the respondent and his/her workplace, respondents are asked about the presence of trade unions and works councils at the work place as well as the respondent’s evaluation of the impact of collective agreement.

Based on the HCSO surveys, the estimated number of union members was 615 thousand in 2001 and 549 thousand in 2004. As a share of the total number of employees, union coverage was 19.7 percent and 16.9 percent, respectively, which is a 2.8 percent decline over the three year period (*Table 1.3.*).

As for the various industries of the economy, in both Surveys electricity, gas, steam; transport and storage; education; health and social work; and public administration are the strongholds of trade unions. Evidently, public services and sectors with state ownership dominance are the most unionised. Unionisation, however, is rather low, around 10 percent, in the sectors of agriculture; manufacturing; and financial activities. The share of trade union members is the lowest in construction; hotels and restaurants; trade; and real estate and renting. Admittedly, these are the sectors where employers are mostly small and medium sized enterprises and the characteristics of employment (seasonal work, flexible work contracts etc.) are not favourable for trade union operation. These statistical figures clearly underpin the findings of earlier case studies as well as calculations on the sectoral frequency and effect of collective agreements (*Neumann* 2001a).

Table 1.3: Unionisation by sectors and by gender 2001–2004 (per cent)

	Men	Women	Total	Men	Women	Total	Change (total)
Sector	2001			2004			2001-2004
Agriculture	5.4	7.9	6.0	9.4	12.5	10.1	4.1
Mining and quarrying	30.2	28.4	29.9	34.6	49.9	37.6	*
Manufacturing	16.5	14.9	15.8	14.6	14.6	14.6	-1.2
Electricity, gas, steam	28	36.8	30	32	30.5	31.5	*
Construction	3.4	3.5	3.4	3.2	9.1	3.8	*
Wholesale and retail trade and repairs	5.9	8.2	7.1	4.2	6.2	5.3	-1.8
Hotels and restaurants	2.6	6.0	4.4	3.2	4.6	4.1	*
Transport and storage	39.5	41.6	40.1	33.1	37.4	34.3	-5.8
Financial activities	12.2	18.0	16.3	10.2	13.2	12.3	*
Real estate and renting	6.9	7.1	7.0	4.5	6.6	5.5	*
Public administration	25.4	33.5	29.3	26.8	25.4	26.1	*
Education	37.9	40.1	39.6	27.2	30.0	29.4	-10.2
Health and social work	33.2	34.0	33.8	26.9	26.1	26.3	-7.5
Other services	12.2	13.2	12.7	12.1	16.1	14.1	*
Total	17.3	22.4	19.7	15.3	18.7	16.9	-2.8

\* The difference is not significant, in the rest of the cases  $p \leq 0.05$  (in Student's t-test).

Source: HCSO Labour Force Survey.

Between 2001 and 2004, the share of members grew in only two sectors – agriculture and mining – but only because employment shrank more than membership. The share of members dropped the most in two, mostly state owned, public service sectors: in education by 10.2 percentage points and in health care and social work by 7.5 percentage points. It is to be noted that this huge decline took place in the period that includes the year 2002, when the Medgyessy administration raised public employees' salaries by 50 percent.

Both surveys show that a larger share of women were members than men, though the difference was decreasing. (In 2001 22.4 percent of women and 17.3 percent of men were members and in 2003 the percentages were 18.7 and 15.3.) The unionisation of women was greater in almost all sectors.

HCSO surveys underpin the findings that union membership is ageing: members on average are four years older than non-unionised employees, and the difference is slightly greater for men than for women (*Table 1.4. and Figure 1.1.*). In 2004 the share of members was the largest in the age group 50 to 59 (23.3 percent) while the unionisation of the young (aged 15 to 29) was as low as 8.5 percent. Back in 2001, too, the mode was the age group 50 to 59 but the unionisation of the young was a little higher, 11.4 percent.

The Survey enables us to examine unionisation in the various groups of employees. In 2004 13 percent of blue collar employees and 23 percent of white collar employees were union members. By groups of profession, the share of unionised employees is the greatest in the groups of “professionals” and “technicians and associate professionals” while the far lowest level of un-

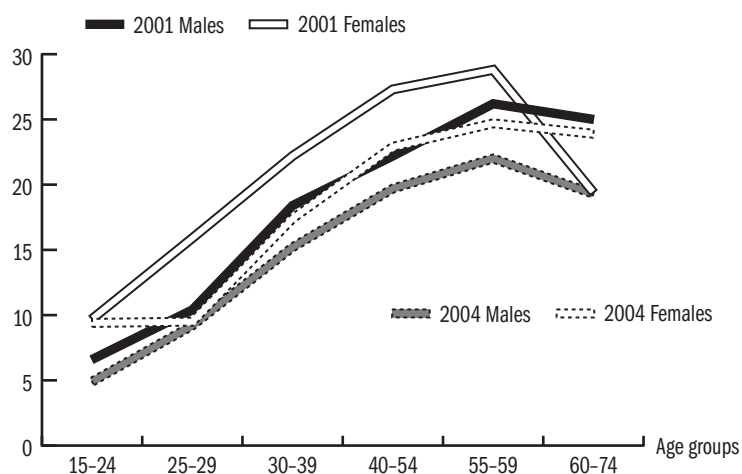
ionisation is found in “skilled agriculture and forestry workers” and in “elementary occupations”.

**Table 1.4: The average age of unionised and non unionised employees (2001–2004)**

Category	Men	Women	Total	Men	Women	Total
	2001			2004		
Union members	41.5	41.6	41.6	42.2	43.2	42.7
Non union members	36.9	37.9	37.4	37.9	39.5	38.7
Difference	4.6	3.7	4.2	4.3	3.7	4.0

Source: *HCSO LFS*.

**Figure 1.1: Unionisation by age groups (per cent)**



Source: *HCSO LFS*.

The HCSO survey asked in both years whether there was a trade union at the respondent’s workplace (*Table 1.5*). This figure is the basis for estimating how big collective bargaining coverage trade unions are ideally able to achieve through workplace – to use the legal term: single employer – collective agreements (i.e. in cases in which the law permits collective bargaining in the given area and where the employer is also willing to bargain).

In 2001 37.3 percent and in 2004 33.0 percent of respondents answered “yes” to this question, which is a 4.5 percentage point drop. At the same time, however, many (12.7 percent) gave a “don’t know” answer. Evidently, the answers reflect the respondents’ subjective judgement of the trade union’s role at the workplace, but there is an obvious correspondence with membership by gender, industry and changes over the three years. In 2004 24.5 percent of blue collar workers and 44.5 percent of white collar workers had a trade union at their workplace. The highest share of “yes” answers was given in the armed forces, and the group of “professionals” came second. The least organ-

ised workplaces were reported to be in “skilled agriculture and forestry workers”, in “plant and machine operators and assemblers”.

**Table 1.5: Workplace presence of trade unions by industries and gender, 2001–2004 (per cent)**

Industry	2001	2004	Change 2001–2004
Agriculture	12.9	13.4	0.5
Mining and quarrying	59.3	52.8	*
Manufacturing	33.8	30.9	*
Electricity, gas and steam	60.0	59.9	*
Construction	8.3	5.8	*
Trade and repairs	14.3	8.0	-6.3
Hotels and restaurants	8.7	6.2	*
Transport and storage	63.2	53.9	*
Financial activities	33.2	26.8	*
Real estate and renting	15.2	11.7	*
Public administration	54.9	51.1	*
Education	68.9	62.9	-6.0
Health and social work	65.5	55.6	-9.9
Other services	26.6	21.6	*
Men total	33.5	29.4	-4.1
Women total	41.6	37.1	-4.5
Total	37.3	33.0	-4.3

\* The difference is not significant, in the rest of the cases  $p \leq 0.05$  (in Student's t-test).  
Source: HCSO LFS.

### *Organisational characteristics, resources and politics*

*The confederations and politics.* In order to understand the current situation, one must go back to the events in the years of the change of regime. At that time, new grassroots union movements and the self-reformed successor organisations of the monolithic trade unions of the state socialist system fought bitterly over political and ideological issues as well as over legitimacy and assets ones. The legacy of this period is the still heavily politicised nature of the trade union movement and the very tense relationship between confederations.

The economic ideology of post-socialist transition, market liberalisation as well as the dismantling and privatisation of the sector of large state owned companies and the radical restructuring of the labour market and the urgent need to reform the “prematurely born welfare state” (*János Kornai*) would have represented serious political challenges for the trade union movement even without the emergence of union pluralism. In the end, the sharing of trade union assets and the legitimacy of the confederations was settled by an agreement in 1992 negotiated between the union confederations, each helped by the political party it considered its ally. In the public debates, Parliament played a more important role than the Interest Reconciliation Council as the

legal regulation – or the threat of it – was crucial in stopping union in-fighting (Ladó–Tóth 1996). Industrial relations were shaped by a whole series of state interventions: the creation of the labour law including the representativeness criteria which trade unions must meet in order to be recognised as a collective bargaining partner at the workplace (1992); attempts by the Horn administration to set the rules of representativeness for the trade union side in the Interest Reconciliation Council; “anti-trade union” amendments of law by the Orbán administration; the repeal thereof by the Medgyessy government. Modification of the law with each change of government led to pendulum-like swings in the recognition of trade unions and in the legal and economic frames of operation (not only in terms of the distribution of representation rights between trade unions and works councils but also of the distribution of still state owned assets, time-off for officials, tax deductibility of membership fees etc.) Eventually, union leaders came to realise that their operations at workplaces largely depended on the goodwill of the governing parties.

The other cause of the highly politicised nature of the union movement is the way *tripartism* works. Researchers and observers tend to agree that the agenda of the Interest Reconciliation Council fundamentally depends on what the government wants it to include (Ladó–Tóth–Nacs 2000; Advagic 2005). Suffice it to mention that when the Orbán administration reformed the system of tripartite institutions, trade unions had to acquiesce in the reduced importance of social dialogue, and their roles in it. Nonetheless, trade unions, no more than employers’ organisations, could not be expected to relinquish their fundamental goals and stop trying to influence economic, income and social policies which directly impact the living conditions of their members (Hanti 1999). Furthermore, their ability to shape policies was the foundation for gaining recognition as social partners and political factors (See Tóth and Horesnyi, chapter 2.1 *In Focus*) as well as enabling them to build up prestige and acquire favourable positions.

The fact that there are as many as six confederations on the employee side of the National Interest Reconciliation Council is related to the origins of these organisations. By late 1993 dramatic political clashes were over and the organisations of the confederations consolidated and their relationships normalised at a level which was sufficient for cooperation. Yet the effects of in-fighting are still felt. That “tribal relations” (Gáspár Miklós Tamás), quite usual on the Hungarian political scene, pervade the union movement comes hardly as a surprise, especially knowing that union leaders and apparatuses are mostly the same as in the early 1990s. This seems to be the main cause for why attempts at cooperation or merger between confederations have failed (e.g. the joint declaration of the six confederations made at Mátraháza in 2000, initiatives of LIGA to merge with other confederations, the alliance of SZEF and ÉSZT etc.). Joint actions by the confederations – however ra-

tional they would seem financially – have been limited to a few advisory and international areas (such as participation in the European Integration Committee of Hungarian Trade Unions, in the Economic and Social Council in Brussels, running the advisory organisation ÉTOSZ, seminars run by the Friedrich Ebert Foundation), and even these are often the creations of domestic or foreign sponsors with some “popular front” ideals.

In addition to personal grievances, it is the way how confederations are organised that does not really permit merger. Although it is suggested from time to time that the competitive sector, public utility services and the public sector would be rightfully represented by separate confederations (which implicitly urges merger into three confederations), the real situation is not that simple. MSZOSZ covers some public service and public employment areas (as a matter of fact, one of its clusters is made up of the trade unions in the public sector including businesses in public utilities) just as LIGA comprises member unions in transportation, education and health care. At the same time, confederations are not separated unambiguously by sectors: after the break up of SZOT, the reformed trade unions belonging to the various sectors or sub-sectors joined different confederations, and the new confederations set up their own sectoral organisations in the mid 1990s in order to ensure their participation in the Interest Reconciliation Council. This sectoral pluralism clearly manifested itself in the rivalry of trade unions when the *sectoral social dialogue committees* were set up. Furthermore, any potential rapprochement between confederations is hindered by the every day conflicts of workplace pluralism: members, especially local activists, socialised in confrontation are suspicious of all proposals which would just seem rational ideas of cooperation to an outsider.

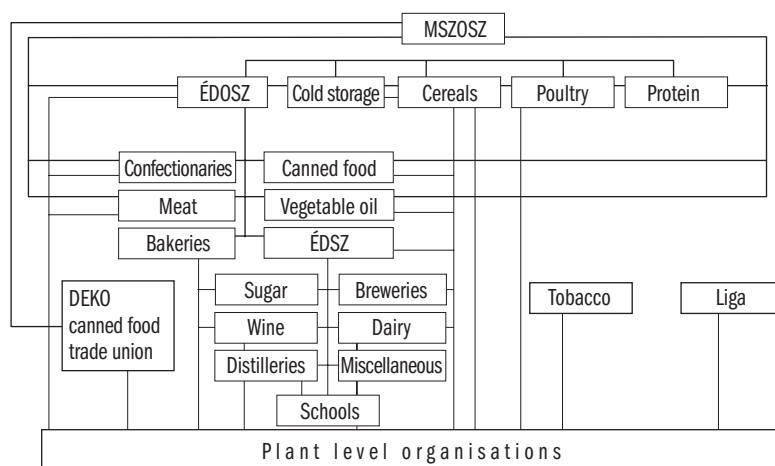
At the same time, overt and covert conflicts and rivalry exist between confederations where there is a clear cleavage between the organisational fields of peak organisations, such as between the business and the public sectors. It appears that the confederations have not as yet been able to overcome their conflicts of interest about the desirable level of financing the public sector. The trade unions of the business sector (i.e. at private sector and state owned companies) demand an overall reduction of tax burdens and of budgetary expenditures – finding an ally in employers’ organisations – while what public sector trade unions naturally want is to retain civil servant and public employee jobs and to have a guaranteed increase of salaries, and consequently are not partners in demanding budgetary expenditure cuts. The competitive vs. public sector conflict may be a long lasting tension on the employee side of the Interest Reconciliation Council. Furthermore, there seems to be a rivalry between “old” and “new” public sector trade unions, dating back to the change of regime: the organisations belonging to SZEFG successfully lobbied and used



their political clout in 2004 and managed to pass a bill on representativeness that was favourable for them. (see Erzsébet Berki's paper in 2.3).

*Sectoral and workplace organisations.* Similarly to employers' organisations represented in the Interest Reconciliation Council, members of union confederations can be both sectoral and company organisations. The lack of a hierarchical and transparent trade union structure is a serious problem mostly at the sectoral level. Members of sectoral federations can be organisations of sub-sectors or specific areas or company trade unions joining directly; this organisational setup especially hinders the conclusion of sectoral collective agreements – as seen when the *sectoral social dialogue committees* were set up (Neumann–Tóth 2002a). The sectoral mapping studies, made in preparation for the setting up of *sectoral social dialogue committees* explored in detail which organisations in the various sectors are rivals and which belong to the same confederations, and how they are linked to one another. The complexity of the situation is illustrated by the organisational chart of the food industry in Figure 1.2.

Figure 1.2: The structure of trade unions in the food industry



Source: Sóki–Dékán (2002).

This complicated sectoral and company organisation and decentralised trade union structure arose around the time of the regime change, when the *one company – one trade union* principle became dominant. The new democratic movements were organised and registered in this form right at the outset; nevertheless, partly as a result of the natural development of a democratic political environment and partly as a result of the mandatory application of Act II of 1989 (the law on associations), company trade unions became dominant in the reformed old trade union structure too. Even though not all of the company trade unions were registered as an independent legal entity, they enjoy



a high degree of autonomy in the (sub)sectoral federations both in terms of using collected membership dues and of shaping their company level interest representation policies. Company trade unions could freely decide which federation they wanted to join and even after becoming federation members they could retain some of their independence from the elected (sub)sectoral union leadership (Tóth 1999b). Evidently, the company level becoming the most important level of union organisation is one of the main causes why collective bargaining has remained heavily decentralised. Other causes seem to be the counter interest of employers to conclude sectoral agreements and the weakness of sectoral trade unions.

As opposed to confederations' level, however, at sectoral level the financial consequence of decentralisation, shrinking membership dues and assets moved unions towards strategic alliance or merger. Recently, trade unions in the textile, clothing and leather industry belonging to MSZOSZ as well as in the printing and paper manufacturing have held such strategic negotiations. At the same time, decision making bodies of MSZOSZ have made a top-down attempt to restructure scattered sectoral trade unions. Its congress in 2002 decided to create six so called clusters, with the following tasks: "Trade unions making up a cluster, shall cooperate in the spirit of solidarity and gradually create, in line with their possibilities, the personal, organisational, material and financial conditions for a more integrated operation at the national, regional, county and local level" (*Érdekvédelmi...* 2004, pp. 55.). At the same time, as a side effect of institution building related to the setting up of the *sectoral social dialogue committees*, the strengthening of sectoral actors has lead to a legitimacy crisis of the leadership.

*Conditions of operation.* Both at the confederate and sectoral levels, the main obstacle to an appropriate level of interest representation is the lack of specialised staff. Evidently, trade unions have hardly enough experts to fill tripartite committees; frequently the same persons participate at meetings that would require very different kinds of knowledge and specialisations. Confederations have at most ten to twenty full and part time staff. There are scarcely any sectoral trade unions with a staff of more than a couple of persons. (Sectoral trade unions of similar size of membership in Western Europe maintain a staff of several tens, occasionally hundred of persons.) This level of staffing is obviously not enough to fulfil interest representation tasks in the strict sense, which in Hungary include not only sectoral collective bargaining, participation in social dialogue committees and lobbying activities to influence sectoral policies but also technical assistance to company unions, which is indispensable because of the decentralised nature of organisation and bargaining (helping in recruiting members, in getting the recognition of the company management after the organisation has been set up and later in collective negotiations and potential conflicts.) Plummeting membership and

collected dues force trade unions to cut expenses and staff, including those doing the interest representation jobs. (For instance, MSZOSZ laid off staff in its rural interest representation network a few years ago.) Staff members tend to be the very same as at the beginning and trade unions have hardly employed any fresh higher education graduates.

The shortage of experts is the result of the dire financial situation of trade unions. In the past decade, trade unions have covered operation costs from three sources: inherited or redistributed union assets (typically selling real estate), membership dues and grants from public funds. All of the union confederations and the majority of sectoral centres have already consumed a great part of their assets: under extensive media coverage, they have sold their headquarter buildings and moved the offices to smaller, sometimes rented, premises. Considerable sectoral funds collected for strike situations or to pay aid to members are also missing in Hungary. (The only exception is the electricity industry, in which, at the time of privatisation, trade unions successfully fought to set aside 1 per cent of the sales revenue as a separate union managed fund to alleviate future employment problems.)

Tax Authority records say that the total amount of membership dues in 2003 was about HUF 4 billion. Confederations and sectoral federations, however, receive only a small share of this amount. Customarily, the payable due is 1 per cent of one's gross wage, but as a kind of side effect of workplace pluralism, several trade unions have lowered fees to out-compete the other trade unions at the company. The majority of collected fees are used locally, most of it to pay aid and throw traditional workplace parties. Several say that this is what members want because they became used to these kinds of trade union "services" in the socialist era. In principle, company unions should pay 40 to 60 percent of collected fees to higher level organisations; sectoral federations, however, report much smaller transfers. As already pointed out, the poverty of union centres is partly the consequence of company trade unions' autonomy gained in the course of the democratic transition.

With inherited assets gone and membership due collections dwindling, trade unions had to find other sources of money. As of the mid-1990s, grants from the Hungarian government and public organisations and from international organisations, have been playing an ever more important role. It has to be noted that in addition to the more or less public financing of projects, since the solidification of the new pluralist structure trade unions' policy has been to grab various influential positions in state institutions, their main argument being that in Western Europe social partners participate in the management of pensions, unemployment insurance, vocational training and other special sectoral funds. In Hungary this became possible after 1993 when trade union and employer representatives first participated in the steering committees of the social security funds. While scandals around the funds made it easy for

the right wing government coming into power in 1998 to remove employer and employee representatives, in practice in Hungary participating in asset management and allocation mechanisms has never been limited to the area of social security. Then, with the socialists' winning the elections in 2002, trade unions renewed their efforts to demand positions in the various corporatist structures as well as the kind of regular normative transfer from the state's personal income tax revenue that churches and civil organisations get. Their underlying ideology was that trade union activities should be recognised by the state as "public goods".

While governments to date could not support trade unions openly, the share of unions' revenues from public funds has been growing since the Horn administration was in power. According to estimates, in 2003 the whole of the trade union movement received HUF 1.5 billion under various titles. Trade unions have been annually given the same amount of central support as employers' organisations, earmarked for a range of tasks such as preparing for EU accession, representation in EU level organisations, education, research, running the sectoral social dialogue committees etc. Yet, knowing the difficulties of delimiting the various tasks, one should assume that an ever larger share of the operating costs of trade union headquarters is financed from public funds. At the same time it has to be recognised that without targeted support the new institutions just would not survive.

### *In lieu of summary*

*Trade union models and strategic choices.* In the period immediately following the regime change trade unions were fighting for survival; then in the decade after the consolidation of the new pluralistic structure the whole trade union movement suffered significant losses. Each of the unions lost membership and a great part of their inherited assets as well as their mobilising force, which was quite significant at the beginning of privatisation. Parallel with this, they became increasingly dependent on the institutions of social dialogue set up by the various governments and on the possibilities of lobbying through these institutions. This fact, as evidenced by the political turns over the past fifteen years, has made unions' vulnerable. It seems that under the current government it is a strategic issue for trade unions to stock up enough reserves to survive if a right wing government comes into power in 2006 again.

Over the past fifteen years, however, trade unions have pursued different strategies. Here briefly the organisational and functional models will be discussed that have been taken over from Western Europe and the US by Hungarian trade unions mostly as a conscious strategy of union leadership or sometimes as the result of spontaneous development. (The latter type of models serve mainly only as an analytical tool.) One focus of the analysis will be how much these strategies may help strengthen the organisations.

The oldest model in the history of trade unions is *craft unionism*. As known, before the communist take-over of power in 1948 this was the most widespread organisational principle in Hungary, and after the regime change, some of these organisations were revived. One such organisation is the Railway Engine Drivers' Trade Union, which showed its strength in organising railway strikes. Furthermore, in the specifications of the criteria of collective bargaining, the 1992 labour law recognises the concept of trade unions covering the majority of workers in a given profession. Interestingly enough, an extreme of company trade union pluralism is found in transportation: the employees of whole companies (MALÉV or Budapest Airport) organise on an occupational basis. The experience of the past decade suggests that these kinds of trade unions have been successful only in monopolist public service enterprises where strikes could potentially paralyse the whole country, and because of their being state-owned, the company's budget constraints are soft. Most of these unions, however, have closed themselves up within the company, thus control over the occupational labour market, which traditionally is one of the main strengths of craft unions, could hardly be exercised.

*Sectoral trade unions*, similar to the dominant Western European model, were first set up in the state socialist period and have survived to this day. The socialist legacy, the democratisation coming along with the regime change and the traditional system of collective bargaining, however, helped the creation and the strengthening of the *company trade union model*. Newly created organisations adopted this model too, and in the new confederations there were no sectoral organisations at all at the beginning. Sectoral trade unions in Hungary are in fact alliances of company trade unions and do not have the kind of power over workplace trade unions which Western European ones have. In the Western model sectoral unions can conclude collective agreements without involving company trade unions, can give them instructions, control their activities and even dissolve them. With the new sectoral social dialogue committees, however, sectoral trade unions are likely to gather some strength. With respect to unions' ability to appeal to their (potential) membership, however, it seems that company trade unions will have to step up efforts to recruit new members at organised workplaces. (At least this is what the findings of a trade union survey in 2000 suggest. According to this survey, employees appraise those activities the most that influence directly their living and working conditions.) (Pataki *et al* 2000.) If trade unions want to conquer non-unionised workplaces, first they will have to set up strong sectoral trade unions which are able to efficiently assist local trade unions to become organised and operate. Finally, for the sake of completeness, the model of *general trade unions* can be mentioned, which comprise several professions and employees of several companies on an *ad hoc* basis. Such organisations

are found mostly in confederations set up at the time of the change of the regime, but these have remained rather insignificant.

As for the political and/or ideological dimension of organisation, the pluralistic, *competing trade union* model was dominant in the years following the regime change. Sharp political clashes are over, but disagreements have remained latent, evidenced by unions' relentlessly trying to drive each other out of the representation arena. (At least this is what the representativeness rule for the public sector introduced in 2004 suggests. Also, the large trade unions in the National Interest Reconciliation Council regularly propose to "restructure" their side.) Despite the latent political and ideological rivalry, large trade unions following the *social democratic* course dominate the Hungarian union model. Generally, the sort of goals and roles a trade union assumes does not necessarily mean that it maintains relationships with political parties pursuing similar ideologies. An exception is MSZP (Hungarian Socialist Party) and MSZOSZ, which openly admit their alliance. (Apart from these, only one confederation appears to be ideologically committed: the National Alliance of Workers' Councils defines itself as a Christian union movement, looking for international partners and home party-alliances along these lines). At the same time, knowing the popular negative appreciations of politics and political parties in Hungary, any open political affiliation is clearly not the right way to build up membership, and Hungarian trade unions cannot really be defined as "Richtungsgewerkschafts", connected to one political and/or ideological orientation or another.

Between 1991 and 1995 MSZOSZ adopted a social democratic policy and made broad social policy demands: compensation for the losers of the economic transition, extending welfare state services and the inclusion of trade unions in the decision making mechanisms of the social policy institutions of the state. In the beginning this policy was highly successful, especially in the sense that it consolidated and legitimised the biggest of the self-reforming successor organisations of the state socialist trade union. (Tóth 2001) The effort, however, to expand the role of the social partners failed: in 1994 and 1995 a social pact (*the Social and Economic Agreement*), which would have been a formal agreement over the demands, was eventually not concluded and none of the welfare-state-type parliamentary election campaign promises could be fulfilled in the given term of the respective governments. Nevertheless, the social democratic role MSZOSZ assumed has ever since been determining the nature of its demands. It would be reasonable for the confederation, however, to understand that in an open economy and in face of the current macroeconomic challenges it is quite unrealistic to demand "European wages" or "transition to a welfare state". Curiously enough, with accession to the EU, the popularity and appeal of the "*European social model*" has grown, and today not only MSZOSZ but the rest of the national union

confederations have adopted it into their rhetoric. The question, however, is how much making illusory promises and populist demands can help strengthen the organisations in the long run.

Undoubtedly, the other very popular model is „*business unionism*”, even if the term is not widely used in Hungary. One of the reasons why this model concentrating on the financial well-being of the membership through collective bargaining has so much penetrated is that in the early years of grassroots movements American trade unions provided substantial support and influence. Equally important is the internal development of organisations and disillusion with politics. Given the decentralised union operations and the leadership of sectoral trade unions being dominated by company delegates, this pragmatic approach seems to be adequate in this country. In Hungary business unionism is not limited to the company level but can also be the strategy of sectoral alliances and confederations. For instance, SZEF and the Alliance of Autonomous Trade Unions as confederations pursue a party-neutral policy and their primary goal is to represent the financial interests of their members and successfully bargain to set wages, potentially through national level agreements. It is to be noted, however, that this model is rather narrow minded in the sense that it concentrates exclusively on the needs of its employed members and has proved to be unable to stop the decade long decline of unions – at least in the Anglo-Saxon countries where it originates.

Earlier there were attempts at adopting the „*service trade union*” model. Theoretically, the state socialist trade union traditions could have been an appropriate basis as distributing company welfare and other services to members had been one of the main functions of trade unions in the socialist period. In the early 1990s MSZOSZ had plans to provide its members a range of services (bank cards, insurance, reduced price goods) but union assets that should have financed these services were consumed too fast. Union resort homes were privatised, and the only thing that has eventually remained is accident insurance for members at some of the sectoral alliances. Of course, trade unions still provide their active and retired members some workplace services (such as free legal aid, reduced-price goods), but these are just marginal in their strategies.

*Possible strategic answers.* As a matter of fact, there are few realistic “strategic choices” for union leaderships to counter complex external and internal challenges such as economic, political and technology changes, or the shrinking membership. Decisions are constrained by circumstances as well as internal governance and the cultural traditions of the organisation (Undy *et al* 1996). One possible way to cope with the diminution of membership and resources is to adapt to the situation and cut costs and activities, but this may threaten the survival of the trade union. The other option is the route which Western European sectoral trade unions have often chosen in order



to survive: merger with similar organisations, which offers the advantages of economies of scale, or fusion into a bigger organisation with greater organisational resources, the services of which then are made available for newcomers. Basically, these are the two solutions Hungarian trade unions have opted for too. The first is quite common while the second is only a realistic prospect. The other two options are hardly a possibility in Hungary: the first is to raise membership fees or centralise resources, which is feasible for a sectoral organisation only to the detriment of company unions. The other option is to change the organisation's ideological line and strategy and find new political allies. For instance, adopt a more militant bargaining strategy in the hope of winning new members. Under the Hungarian conditions, however, such a strategy can lead to the defeat and potentially to the cessation of the company trade union. Unions can, of course, combine the various strategies, but Hungarian trade unions will probably have to find a solution themselves that best fits their special situation.

The “*organising unionism*” model, developed by the American trade unions in the 1980s and 1990s in response to their shrinking membership, can be of some help to Hungarian trade unions. This model, which can be regarded as the rediscovery of trade unions as a social movement, is based on organisational renewal, making the organisation of the trade union a priority and emphasising a broader interest representation policy paying special attention to the economic and political representation of various non-unionised minorities (such as immigrants). Through the education and mobilisation of the members, it aims to improve internal democracy and strengthen the union identity and solidarity of members (*Organizing Model...* 1991). The question, however, is whether Hungarian trade unions will try to organise young people or “conquer” non-unionised workplaces. Will they try to be more appealing for the traditionally non-unionised employee groups by, for instance, reforming their insider representation strategy?

Interestingly enough, in Hungary most recruitment campaigns took place in the early 1990s. Grassroots trade unions, naturally, were set up at the time of the change of the regime, and the largest campaigns of reformed trade unions took place around 1993. They primarily targeted green-field foreign enterprises: for instance the Metal Workers' Trade Union made several attempts to organise the Suzuki plant in Esztergom (Tóth 1996). The most active sectoral organisations of MSZOSZ exploited the works council elections in 1993 and 1996 to get in green-field plants in trade, machine and textile manufacturing. (ibid). While sectoral trade unions still provide technical assistance to the “laymen” activists of young trade unions, their capacity is too small to maintain contacts with the works councils at enterprises where there are no trade unions. Vocational training in schools and at enterprises, which is the traditional source of membership supply, has shrunk over the past decade.

Recruiting new members therefore is practically limited to workplaces where the local trade union is strong and able.

The fact is that Hungarian trade unions have not managed to recruit a substantial number of new members yet, partly because the legal regulation makes it onerous for trade unions to enter workplaces where they do not have members, and partly because of hostile company management or the apathy of employees to be organised. The organisational problems are obvious too: neither sectoral trade unions nor confederations have the necessary skilled staff and budgets to start large recruitment campaigns. While theoretically all union leaders agree that the decline of membership could be stopped by recruiting, it is not a priority goal of their strategies.

At the same time, apart from mobilising resources, the shift toward organising unionism requires the rethinking of the whole of the union representation philosophy. In the early 1990s, the goal of the government and of social partners was to improve national tripartism as well as the process of concluding sectoral collective agreements, though the latter only to a lesser extent. Or, to be more accurate, trade unions adjusted their strategies to the model of industrial relations the government offered: build up corporatist institutions at national level. As a result, entrenching themselves in these institutions became their primary objective, especially after a legal provision in the mid 1990s made the presence of a member organisation in national tripartism a precondition to participation in lower level fora. As discussed, this strategic choice has led to the politicisation of trade unions as a consequence of which they are exposed to party politics. Developing and operating workplace level institutions was largely left to the company management and local trade unions locked within the company. Instead of real workplace interest representation and recruitment, in the pluralist structure, trade unions' energies are consumed by strengthening their positions in national forums and in the new sectoral dialogue committees. The grassroots organisations of the democratic transition and company unions insisting on autonomy have been gradually replaced by a top-down legitimacy policy of trade unions, especially of the "new" confederations, since it became clear that they would be unable to recruit significant membership (*Neumann 1996*). Even successor organisations, with their well developed sectoral structures, expect the state to intervene and extend existing collective agreements, and spread their influence through the extended agreements on employers in the sector where there is no trade union. This expectation too follows the top-down logic: through the extension the collective agreement coverage will be one hundred percent without having to bother about cumbersome recruiting and local bargaining. Eventually, of course, neither the new nor the old trade unions' expectations were fulfilled because employers did not support them.



In Western Europe there are several examples how legitimacy from above and the extension of collective agreements works (*Traxler–Behrens* 2002). But a precondition, just as in the case of the regular social dialogue in the EU, was an already existing and well working industrial relations system which made it possible for employers and trade unions to negotiate and jointly regulate the conditions of work and employment (*Jannsen* 2002). Without historically established institutions and workplace interest representation, transposed institutions are not likely to succeed. The implication for the strategic choices of Hungarian trade unions is that they have hardly any alternatives to strengthening their presence at the workplace, i.e. they should pursue a balanced policy in which higher level operations do not overrule the tasks of workplace interest representation and recruitment.

## 2. THE INTERMEDIATE LEVEL OF INDUSTRIAL RELATIONS

### 2.1 Regional Industrial Relations

JULIANNA HORESNYI AND FERENC TÓTH

#### *The definition and characteristics of regional industrial relations*

Regional industrial relations refer to those forms of cooperation in which the actors are organised along the territorial principle and their activities focus on a given geographical area. In this interpretation, regional industrial relations together with sectoral industrial relations constitute the intermediate level of industrial relations. In Hungary the regional dimension is essentially linked to the county-level<sup>13</sup> including bipartite, tripartite as well as multipartite relations. With the dismantling of the earlier monolithic and centralised structures and with the introduction of a pluralistic system, a great variety of institutions were created at the time of the regime change. The development of these institutions, however, was highly uneven and often controversial.

Developments of the past fifteen years have highlighted that

1. bipartite regional industrial relations hardly exist at all, and currently there is only one regional collective agreement<sup>14</sup> (not to be analysed here);

2. tripartite relations have undergone a substantial development that can be separated into four different stages. In 1989, the institution of the so called *employment crisis zones*, the first, basically centralised interest reconciliation mechanism designed to address regional employment crisis situations was set up in cooperation with the National Interest Reconciliation Council.<sup>15</sup>

Thus the National Interest Reconciliation Councils, set up in December 1988 for general tripartite consultation and central wage negotiations, was the first institution to address the employment crisis in several parts of the country. Within this forum, attempts were made to establish the formal institutions of regional interest reconciliation. While this system of institutions was not supposed to break away from the overall system of economic administration of the time, it was clear that the major actors of the concerned areas and regions had to be involved in the process of interest reconciliation, i.e. go beyond the system of reconciliation within the state and party administration. The “interest reconciliation mechanism”, as it was called at that time, established in 1989 to address the employment crisis in counties and small-areas worked along the following lines: 1. in case of employment crisis in a county, a small-area or a region, members of the National Interest Reconciliation Council could propose to qualify the given territory as a *crisis zone*; 2. in case

13 Defining the county as the spatial unit of industrial relations is, of course, a matter of the dominant type of relations. In certain cases, other – smaller or larger – spatial units are the (potential) scene of intermediate level industrial relations.

14 The Jász-Nagykun-Szolnok County Organisation of Traders and the Jász-Nagykun-Szolnok County Organisation of the Trade Union of Commercial Employees signed a regional collective agreement in 1999 for an indefinite period of time, but did not fully use their statutory manoeuvring room. The agreement covers a relatively little area of regulation compared to what the law permits, and often only repeats the provisions of the Labour Code and includes items that are unfavourable for employees.

15 *Decrees regulating crisis zones* are the following: Decree of the Council of Ministers 143/1989. (XII.22.) on the Employment Fund and its use in crisis zones; Resolution of the Council of Ministers 1069/1990. (IV.23.) on extra support for zones in a crisis situation of employment in year 1990; Government decree 1050/1990. (XI. 17.) on the use of extra support available for areas qualifying as crisis zones of employment.

the motion was approved, the National Interest Reconciliation Council set up an experts' committee that reviewed the employment situation and submitted its opinion to the Council; 3. the final decision, i.e. to declare the given territory to be a crisis zone or not, was made by the National Interest Reconciliation Council. It was also the Council's prerogative to specify the amount of the extra financial support provided for the crisis zones from the Employment Fund; 4. a local interest reconciliation body was set up in each crisis zone with the participation of local social partners and the local government, as well as that of the representatives of relevant central agencies (ministries, public authorities and state development institutions); 5. the local interest reconciliation council decided about the allocation of the financial assistance specified by the National Interest Reconciliation Council, on the detailed rules of using the extra financial support.

In the micro-regions of the country (altogether in six counties), where the employment problems of large companies in a crisis situation could only be solved with central government help, a new interest reconciliation system started to develop in 1989 which included several local and central (state administration) participants and local elements, the "legal successors" of which are the later established county labour market boards. See in detail: *Ladó-Tóth* (1990a), (1990b); *Tóth* (1996), (1997), (2001a).

The next phase, which started with the setting up of labour market boards in 1991 and lasted until 1996, was the pluralistic and decentralised stage of autonomous and spontaneous self-organisation of regional tripartite industrial relations. The outcome was a pluralistic and decentralised structure of regional tripartite industrial relations.

The current corporatist-regulatory stage began in 1997. Corporatist-type functional interest reconciliation<sup>16</sup> bodies have become dominant, replacing or setting up the duplicates of autonomous, pluralistic bodies of the previous years, based on the self-organisation of the participants. In the new bodies the number of participants has become limited, and their selection has been regulated by legislation.

To changes over the years, i.e. the move towards a corporatist system in industrial relations, especially at regional level, can be best grasped if discussed in the general context of pluralism. The distinct characteristics of the system of *pluralist industrial relations* is that i) it comprises an indefinite number of various and freely organised, autonomous and independent competing actors, and ii) its formal institutions are not parts of an hierarchical structure. Furthermore, iii) neither the actors nor the institutions hold public functions, state authorisation; and iv) are neither supported nor established by the state. Similarly, v) the state does not control the recruitment of members, or the representation and pursuing the members' interests. The actors and institutions of pluralist industrial relations are not in a monopolistic position in their respective areas. *Corporatism*, however, is largely the opposite of these: corporatist industrial relations include only a limited number of actors, forced into alliances, which are not rivalling; institutions are in a hierarchical structure and are functionally separated from each other. Actors/institutions are authorised or recognised by the state, or may even be set up at the instigation of the state. They have a monopoly in representing interests in their areas and function as corporations. (*Tóth F.* 2003, pp. 68–74.)

16 The functional interest reconciliation bodies are made up of appointed participants and the government or the local government negotiates with social partners over issues regulated in special laws (such as employment policy, work safety). Autonomous interest reconciliation bodies are self-organised and function on the basis of organisational statutes rather than legal provisions, therefore the responsibilities of participants are different (*Tóth* 2004, p. 119.).

3. At the same time, over the past few years, a variety of *multipartite relations* has developed (multipartite small-area development councils were created, made up, among others, of local social partners; employment pacts were concluded based on local partnership which are important instruments to involve civil and social actors in planning and implementing regional employment policies etc.).

4. A formal connection has been developed between the central and the regional level of industrial relations through the nomination procedure of the participants. As opposed to the years after the change of the regime, according to current regulation<sup>17</sup> only those county or local organisations can participate in tripartite and multipartite regional fora which are affiliated to a national employer or trade union confederation which is involved in macro level interest reconciliation, i.e. currently is a member of the National Interest Reconciliation Council.

To sum up: currently, the bipartite institutions of industrial relations – such as collective bargaining, collective labour disputes, strikes – hardly exist at regional level (except for the one single collective agreement, mentioned earlier). The formal, institutional structures of bipartite industrial relations (such as bipartite councils) are also essentially missing. Tripartite and multipartite fora do exist, but they are almost exclusively functional bodies, brought about by legislation, rather than fora for consultation and negotiation created, autonomously and voluntarily, by the parties themselves. The key formal institution at regional level, the real “battle field” for regional social partners is the labour council, established in the counties. The labour council, on the one hand, is the regional body for negotiations on the allocation of public financial sources aimed at promoting employment, training and the professional rehabilitation of disabled persons, as it is stipulated in the Employment Act. But on the other, the labour council is an important consultation and decision making forum on several other issues, giving regional actors of industrial relations legitimacy and an autonomous role to play.

The analysis of regional industrial relations therefore focuses on labour councils. We will outline the normative rules regulating the composition, competence and decision making mechanism of labour councils, with a special view to the changes over the years. Attention will be devoted to the relationship between the labour councils and the so called labour centres, the county level units of the Public Employment Service. The way in which labour councils are connected to the so called Labour Market Fund (the major financial source for employment related purposes) will be also revealed, similarly to their role in the implementation of the Human Resources Development Operational Program (which is the overall framework for using European Social Fund). The relationship of labour councils with other formal institutions primarily with the regional development councils (created in the

17 See: Act IV of 1991 (the Employment Act) on the enhancement of employment and benefits for the unemployed as amended in 1996.

so called statistical-administrative regions of Hungary) will also be touched upon. It is our hypothesis that central administration and political will keep regional institutions of industrial relations in the cycle of “dismantling rights and competences – providing rights and competences – dismantling rights and competences” (Horesnyi 2003), and this is the periodically changing environment, within which the labour councils have to try to adapt to similarly changing and structured local interests and priorities.

### *The regional actors and institutions of industrial relations*

In a given geographical area, in theory, two types of regional social partners could operate: i) employer organisations and trade union organisations organised along the territorial dimension and having a definite regional scope and ii) the local and regional branches of the national employer associations or trade union confederations. In addition to these standing coalitions, temporary collective representation can also be created for a specific purpose, such as a group of workers calling for strike or an ad hoc coalition of employers concluding a collective agreement with a regional effect. Furthermore, it is possible for social partners to formalize their regional cooperation in the framework of, a county trade union round table, a consultation forum of employers, etc. Theoretically, a wide range of institutions of industrial relations could also function at regional level: these can be collective agreements, collective labour dispute, tools of exercising pressure, participation in the various consultation and negotiation fora of interest reconciliation.

At the time of the change of the economic and political regime, generated partly by the rebirth of pluralism, the actors and institutions of industrial relations were mushrooming also at regional level. These developments were, understandably, unregulated and resulted in various rivalling regional social partner organisations and competing regional institutional structures.

By now, however, the situation has stabilised. The actors and institutions of regional industrial relations have consolidated. New social partners are (can be) seldom established as their would be role in representing and defending the relevant interests depends not only on their being regionally active. In order to be part of key regional fora, the labour council, and thus to have an acknowledged voice at regional level, the new social partner organisations have also to be part of the vertical structure of social partners, i.e. only those local organisations are allowed to participate in regional interest reconciliation that belong to a national organisation. This means that a newly established regional actor can participate in regional tripartite or multipartite interest reconciliation only if it joins a national confederation to gain regional (top-down) legitimacy.

Being a member of the labour council, however, provides with additional privileges. Regional social partners are could become involved in any other

regional or local fora of industrial relations only through being first a member of the labour council (horizontal legitimacy).

### *Labour councils in the focus of regional tripartism*

Labour councils,<sup>18</sup> the tripartite structures for regional interest reconciliation in employment issues, have become key institutions of industrial relations in Hungary over the nearly fifteen years from 1991, when they were set up, to 2005. Currently, there are nearly 400 representatives on the three sides of the 20 (19 county plus Budapest) labour councils, and additionally, about 200 more are regularly involved in interest reconciliation in various special committees, experts' committees, preparatory committees and *ad hoc* committees.

### *The history of labour councils: from voluntary cooperation towards institutionalized bodies*

The legal framework of labour councils did not change almost at all from 1991, when the Employment Act came into effect, until late 1996. The Act CVII. of 1996, in force as of 1st January 1997, however, substantially changed the structure of the councils and their participants.

There were several considerations underlying the restructuring of labour councils. First, it was part of the increasing state intervention in interest reconciliation institutions, primarily through legislation, which started in the mid 1990s. Second, it was a response to the widely shared opinion of regional social partners that the delegations of employers and workers organisations in the councils, once created by self-organisation, became rigid and closed. They did not cover all who demanded interest representation at regional level. Additionally, as there were no criteria for representativeness, social partners which in reality had no membership could remain in the council.

Prior to restructuring, the composition of the various county labour councils varied significantly, reflecting the differences in the level of development and organisational principles of social partners across the counties. The size of the councils, and of their respective sides, was very different (one county council had 40 representatives while the other only 9; as for the trade union side, the number of representatives ranged from 3 to 18; while the differences were smaller on the employer side, 3 and 8 representatives on the two extremes). Labour councils included not only the regional organisations of national confederations participating in the central consultative forum of the time (the Interest Reconciliation Council), but other social partner confederations as well (National Association of Christian Social Trade Unions, Solidarity/Szolidaritás), the various organisations of the unemployed (for instance, the National Federation of the Unemployed and Job Seekers Associations), the Hungarian Medical Chamber etc. This regional variety resulted in

<sup>18</sup> The Employment Act defines the councils and their basic responsibilities and competence as follows: the county (Budapest) labour councils (hereafter: labour council) work in the counties (in Budapest) as a body made up of members representing employers, workers and the local government to reconcile interests related to providing assistance in the area of employment and labour market training and the professional rehabilitation of disabled persons. The term of office of councils is four years.



a clear dominance of some national social partner organisations. On the trade union side, nationally 41 percent of the seats in labour councils were held by the National Confederation of Hungarian Trade Unions, 18 percent by the Trade Unions' Cooperation Forum and 13 percent by the Alliance of Autonomous Trade Unions. On the employer side, the dominant organisations were the members of the National Federation of Agricultural Cooperatives and Producers, the National Association of Retailing and Catering Entrepreneurs, the National Association of Craftsmen's Corporations, the Hungarian Industrial Association and the National Association of General Consumer Cooperatives and Trading Associations. Employer associations representing large employers were hardly present (the Hungarian Employer Association, the Confederation of Hungarian Employers and Industrialists and the Union of Agrarian Employers together held as few as 16 percent of seats).

The controversial Act CVII of 1996, in effect as of January 1997, made the structure of the labour councils uniform. As a result, the relative weight of actors in the councils changed, the influence of earlier dominant social partner organisations decreased (sometimes substantially) while that of others grew. Provisions of the law:

1. Specified the criteria for membership in the labour council; as the precondition was the membership in the national (macro level) consultative structure, the number of potential social partner organisations which could send delegates to the councils was considerably reduced; with the introduction of the common criteria for membership the self-organisation of the trade union and especially of the employer side was definitely constrained.<sup>19</sup> Representatives of employers and employees in the labour councils became nominated and recalled by the county branches of national social partner organisations participating in the National Interest Reconciliation Council. On the third side, local governments were represented by delegates from the county (Budapest) assembly and from cities with county rights in the given county.

4. In order to ensure 2. defined the labour council as a corporation with a four year term of office; the members became formally appointed by the director of the labour council for the period of the term, and the director had the right of recall.

3. Set the lower and upper limit of the number of delegation members of each side at 3 and 6, respectively.

Responsible and good-faith financial management of the Labour Market Fund rules on conflict of interests were introduced (while the labour councils themselves were also empowered to introduce additional rules), according to which owners, senior officers or key personnel of organisations providing regular services (training, placement)<sup>20</sup> for the clients of labour centres could not be members of the councils. The labour council could also exclude

19 Delegations of local governments had been composed on a different principle, so the introduction of general criteria for membership did not have a significant effect on that side of the council.

20 The Employment Act names only training institutions and private placement agencies. Currently, however, there is a relatively great number of other service providers, which – sometimes with the support of the labour centres – also provide services (for example career counselling, job search counselling) for the clients of labour centres.

any other members in its own capacity should other types of conflict of interests arise.

5. Confirmed that only representatives holding a letter of commission from the director of the labour centre could participate in decision making (which meant that in case a member could not be present, he/she could not be represented by proxy).

6. Regulated the rules of decision making. Decisions of the council were to be made by consensus, with each side having one vote.

The new legal framework, debated widely, forced most of the councils to implement significant changes (see in detail *Tóth F. 2001c*). Constraining self-organisation and standardising the structure of councils made fundamental restructuring unavoidable. Changes included the followings:

1. In several counties, the number of representatives in the council had to be reduced while in others some additional representatives had to be added to one side or the other. This “administrative obligation” essentially reshuffled the power relations among the regional social partners (for instance, in one of the councils, the trade union side had to be cut back from 18 to 6 representatives). A common difficulty arose from the fact that while nine national employer confederations participated in the Interest Reconciliation Council as few as six representatives could get mandates in the new labour councils.

2. The new regulation created an anachronistic situation primarily on the trade union side. The local organisations of each of the six national confederations represented in the Interest Reconciliation Council demanded seats in the labour council, even those which previously had not been part of the self-organised delegations due to their small membership.

3. The new legal framework substantially changed the composition of the social partner organisations represented in the respective sides. While earlier several regional organisations belonging to the same national confederations could get representation, practically it was not possible any longer. All national social partner confederations insisted on their right to nominate a representative to the labour council, irrespective of the actual strength and capacities of their county branches. Thus, the new legal framework inevitably increased the competition among social partner organisations.

4. Regional social partners not affiliated to national confederations having representation in the Interest Reconciliation Council found themselves being excluded from labour councils (like the National Association of Christian Social Trade Unions, associations of the unemployed, chambers), while social partners taking part in national level consultation and negotiation happened to gain further advantages through their “automatic” right to become members of the labour councils.

5. As regional social partner organisations could get regional representation only if they belonged to national confederations having a seat in the In-



terest Reconciliation Council (so called top-down legitimacy), the hierarchy between the three (macro/national, intermediate and micro/enterprise) levels of industrial as well as vertical coordination gained importance.

6. Several national confederations suffered substantial losses as regards their seats in labour councils (the National Confederation of Hungarian Trade Unions lost 55 percent of its seats but still remained the strongest trade union representation), while other national confederations considerably grew their involvement (the presence of Confederation of Unions of Professionals increased from 5 counties to 19).

7. The new legal framework prompted the social partners to reconsider their internal organisation structures (national confederations had to establish their county based branches and clearly define the role of these organisations). All these changes lead to a visible strengthening of social partners at regional level.

8. Restructuring offered a possibility for social partner organisations to carry out a “quality change” by replacing their less competent representatives.

9. At the same time, the quantitative constraints imposed by the law meant a challenge for some of those social partner organisations that once had had the majority of seats on their respective sides but now lost their dominant power.

No doubts, the new legal framework has shocked the labour councils, bringing both positive and negative consequences. More importantly, the outcome of the “big restructuring”<sup>21</sup> in 1997 has solidified: the representatives have been the same persons (with the exception of the local government side where representatives tend to change with local elections) and the power relations have remained practically unchanged. This is primarily due to the fact that there have been no elections for representatives of social partners, which is one of the consequences of the controversial legislation.

Labour councils played a major role in preventing potential intensive and long lasting social disruption in the aftermath of fundamental economic changes in the counties. They made very important decisions impacting the employment processes in the regions, sub-regions or sectors, including priority support for underdeveloped (crisis) areas and for disadvantaged labour market groups (the Roma). Labour market boards supported job creating investments, made recommendations on the restructuring of vocational training and stressed the need for training in much demanded vocations. It is the lack of resources and the mix of the unemployed rather than bad decisions by the labour councils that often cause the maintenance of disparity between the regions (counties). Clearly, the sides of the labour market boards often engage in vigorous and constructive debates about the guidelines of using resources and on the proportions, expediency and efficiency of the various tools, and seem to have managed to reach a compromise in almost all cases.

21 After restructuring, there were over 31 percent newly delegated representatives (*Tóth F.* 1997, p. 162.).

Most of the councils include the delegates of industry, construction, agriculture, trade, transportation, catering, health care, education and public administration. At the same time, in some of the counties multinational companies are not represented either on the employers' or on the employees' side, even though these companies play a decisive role in the economy of the county.

### *The four periods in the history of labour councils*

In the history of labour councils four stages can be distinguished.

1. 1991 and 1992 were the period of *setting up and learning*, when the legal provisions in effect made it possible for counties to establish interest reconciliation fora with very different structures that best suited their special situations. At that time, up to the report by the State Audit Agency in 1992, the labour councils were empowered to make concrete financial decisions, to decide upon the beneficiaries and the amount of the financial support provided to them. After that, however, labour councils could not be involved in direct allocation of financial sources but only in developing guidelines for allocation. In other words, they could set the frames for decision-making rather than making the actual decisions.<sup>22</sup>

The State Audit Agency investigation focused on the following issues: 1) Can an autonomous (not corporate type) interest reconciliation body be empowered to make technical decisions (allocating public financial resources and funds), or can it be empowered to be directly involved in such decision-making process? 2) To what extent can the decision made by county labour councils be regarded as technical decisions at all, given that the opinions of the members of the labour council (and thus the decision itself) are inevitable based on their mission to represent and pursue the interest of their affiliates? 3) Can the technical element of the decision-making process be separated from the bargaining part, and if yes, how can this be carried out in the complex relations between county labour centres, labour councils and independent experts? 4) How and to what extent can members of labour councils be held accountable if their decisions are unlawful or wrong?

The State Audit Agency found that in the counties under investigation the labour councils acted unlawfully on several occasions as they made specific (direct) decisions on allocation of financial supports in addition to setting the general guidelines and main proportions of the allocation of the so called Employment Fund. (The Employment Fund at that time served similar purposes as the current Labour Market Fund, i.e. provided public financial resources for active labour market measures.) Besides violating the law, this practice had a negative impact on the effectiveness of active measures because it lengthened the time required for decision-making; the councils were not accountable for their decisions, neither in financial nor in technical terms; the decisions were based more on the pure interests of the three parties than on technical considerations. The State Audit Agency set the following tasks: 1) the National Labour Centre (the then headquarters of the Public Employment Service) and the labour councils should ensure that they comply with the relevant provisions of the Act IV of 1991; 2) decisions with financial implications should be documented in a standardised form (for instance in a resolution of the labour council) in order to keep track of finances and make later control possible; 3) the Ministry of Labour should issue a standardised procedural regulation on the Employment Fund (ÁSZ 1992).

<sup>22</sup> Repealing the power of labour councils to make specific decisions outraged council members. They felt disillusioned and deceived. They regarded the modification of their decision-making competence as a serious cut of their rights. In some counties the labour council suspended activities after the decision.

2. 1993–1996: the period of stabilisation and consolidation in which the role of preparing decisions and giving opinion was, and actually still is, their most important function. Board representatives could effectively influence decisions through their direct involvement in the various experts' committees

3. 1997: controversial restructuring and reorganising of the boards, and

4. from 1998 to date: the second period of stabilisation (Tóth F 1999, 2001b).

*Changes in the competences of labour market boards.* The scope of competences of labour market boards has changed several times, both in terms of giving and taking away rights. The following competences of the boards, however, have not changed since the Employment Law came into force:

1. to decide on the guidelines for using the tools of the employment fund of the Labour Market Fund available for the county, and on the proportions of the various supports;

2. monitor the county level use of decentralised financial tools of the Labour Market Fund;

3. make proposals on and review the short and long term programs related to the employment in the county, and monitor implementation;

4. give their opinion on the functioning of the Public Employment Service;

5. hear the report by heads of labour centres about issues under 3 and 4;

6. have the right of preliminary review of candidates for heads of labour centres;

7. meet responsibilities specified in other legal regulations.

The list of competences specified in the Employment Law was supplemented with one function related to allocation of funding in 1997: the councils give their opinion on the drafts of grant programs financed from that part of the rehabilitation fund of the Labour Market Fund which is available for the given county. With the repealing of section (2) par 13 of the Employment Act in January 1999,<sup>23</sup> labour market boards lost their decisive role<sup>24</sup> in regional interest reconciliation in the area of vocation training – an important “battle field” of employment policy interest reconciliation.

Up to late 1988, according to the Employment Act and to Act on Vocational Training<sup>25</sup> which it makes a reference to, up to late 1998 labour market boards had a strong authorisation in the area of vocational training in the county: they could design the grant programs financed from the vocational training fund allocated to the county, review applications and make recommendations to the heads of labour centres on granting the supports. To exercise this authorisation, they could set up vocation training committees made up of the county (Budapest) representations of employers' and employees' organisations as well as of three representatives of local governments which maintain the vocational training schools and three representatives of regional

23 “A separate law regulates the use of that part of the vocational fund of the Labour Market Fund which is available for the county (Budapest) labour market boards. If the board exercises the rights connected to the use of the funding, the agendas concerning it shall be discussed involving the representatives of regional economic chambers.” [Section (2) par. 7 of Act CVII of 1996]

24 These changes fully reflect the changes in the concept of national administration of vocational training.

25 Act LXXXVII of 1996 on the contribution to vocational training and on supporting the improvement of the training system.

economic chambers. As a result of the amendment of the law, however, boards lost their exclusive and direct decision making rights related to the allocation of the vocational training fund. In compliance with the amendment, the newly established vocational training committees were fully independent and separate from labour market boards. While county employers' and employees' organisations could still be members of the committees, there were too few of them to play a sufficiently important role.

As provided by law,<sup>26</sup> in 2001 regional development and training committees, successors of vocational training committees, were set up and were authorised to make proposals rather than decisions. These committees, however, were on a different level (they were "regional" in the sense that they were connected to the seven statistical-administrative regions of Hungary) than county labour market boards, as the members of the committees were not organisations from the county but the regional organisations of national employers' and employees' confederations participating in the National Labour Council, (the legal predecessor of the National Interest Reconciliation Council) as well as economic chambers. The system of norms<sup>27</sup> currently in force regulates the legal institutions of regional *development and training committees*.<sup>28</sup>

In 2004, the gradual loss of power was partly counterbalanced by the law<sup>29</sup> on the rules of contribution to the vocational training system coming into force in January 2004: employers can partially settle their obligatory payment to the vocational training fund by organising training for their own employees through an adult training or study contract. Should this training lead to qualifications listed in the National Register of Qualifications, employers can directly report about their costs to the labour centre and with this they are automatically absolved, to the extent of the expenditures, from the obligation to pay contribution to the fund. In case of training courses not included in the National Register of Qualifications,<sup>30</sup> the labour councils decide whether to credit the training expenditures against the compulsory direct contribution to the Vocational training fund. The difficulty with giving labour councils this function<sup>31</sup> is that it requires an absolutely new form of corporate functioning of labour councils.

Requests for crediting costs of training are reviewed by labour market boards within 30 days of submission or at the next meeting at latest. In the event that the request is incomplete or includes contradicting information, a notice of correction is issued. The applicant is informed about the board's decision within 8 days. Decision making can involve an expert or site inspection at the employer. Labour market boards deny requests that do not comply with regulations and must give the reasons of denial. Procedural rules resemble the rules of the state administration procedure, which is clearly inappropriate for a body with interest reconciliation functions.

What aggravates the controversy is that legal remedy is possible by way of overruling the labour market board's decision: in case of a rejected request, the applicant may appeal at the secretariat of the National Adult Training Council

26 Act LI of 2001 on the contribution to vocational training and on supporting the improvement of the training system.

27 Act LXXXVI of 2003 on the contribution to vocational training and on supporting the improvement of the training system.

28 With their regional organisations missing, participants in these committees are basically the same interest organisations of employers and employees as in the labour councils.

29 Act LXXXVI of 2003 on the contribution to vocational training and on supporting the improvement of the training system.

30 Training courses not included in the National Register of Qualifications, which usually are short term courses (such as language courses, on the job training, communication or competence courses) fit very well the principle of life long learning. These kinds of training courses help acquire specific knowledge, skills and expertise needed at the given moment, in the given circumstances both by the employer and the worker.

31 Joint decree 3/2004. (II. 17.) of the Ministries of Education and of Employment and Labour on the criteria and rules of accounting costs of training organised for own employees against the compulsory contribution to the vocational training system.

at the Ministry of Employment and Labour. With this labour councils have become subject to a sort of control by the central state administration.

It is too early to say what could be the longer-term impact of these recent legislative changes. The new regulation related to vocational training may eventually turn out to be the beginning of a new age of corporatism; if it really will be depends on how open the social partners concerned are, to what extent they are ready to move away from autonomous reconciliation of interests towards corporatism in the field of vocational training.

Labour councils currently still have a vaguely defined interest reconciliation function in this area as according to the Act LXXVI of 1993 on Vocational training, labour councils are (formally) responsible for regional interest reconciliation in vocational training related issues. At the same time, this function is highly questionable as with their decision-making competence taken away, the majority of councils have not discussed one single vocational training related issue in recent years. Nevertheless, several “partial decisions” have been made by labour councils, which are related, though not organically, to vocational training.

In addition to competences stipulated by the Employment Act labour market boards fulfil other functions specified by legal provisions, primarily related to active tools (supports) of employment policy.

The labour councils, for example, have the right to give their opinion on the financial supports used for labour market training. The labour centres put forward their proposals on the priority training areas and the related amounts to the respective labour councils, and then, taking into account the opinion of the council, the labour centres annually announce the list of training they will financially support.

As an other active employment policy tool, labour centres provide support for transportation of groups of individuals<sup>32</sup> to promote labour force mobility. Support is given to employers who transport groups of their own employees from their residence to the workplace and back. Localities eligible for this kind of support are identified by the labour centres in cooperation with the county (Budapest) transportation authority and the labour market board.

A provision of law gives a special authority to labour market boards over the tools of support for unemployed first job seekers.<sup>33</sup> One very important tool is the support to help acquire work experience. This support is available for employers who employ unskilled and unemployed first job seekers or the unemployed with skills specified by law for at least four hours a day and for at least for 360 days in an employment relation and in a job that helps the unemployed acquire adequate work experience. The list of those skills (usually the ones not demanded on the labour market) which makes the first-job-seekers eligible for support within the work experience scheme, is identified by the labour centres after due consultation with and having the opinion of

32 Government decree 39/1998. (III. 4.) on supporting the reduction of costs of transportation to the workplace and on supporting labour force recruitment.

33 Government decree 68/1996. (V. 15.) on promoting job finding by the first job seeker unemployed.



the respective labour councils and the county economic chambers. The types of training for first-job-seekers supported financially by the labour centres are identified in a similar way. Furthermore, having consulted the county economic chambers, the labour council is authorised to identify additional special criteria of eligibility for the support.

*Expansion of the competence of labour market boards with Hungary's becoming a member of the EU.* With EU membership, the competence of labour councils in allocating financial resources broadened considerably in 2004: labour councils also got a say in using the European Social Fund. Labour councils have given, for example, their opinion on the programs aiming at preventing and tackling unemployment launched within the Human Resources Development Operational Programs (in which labour centres submit their programs as final beneficiaries), notably within its measure 1.1. Labour councils now have a key role in monitoring the implementation of these programs.

In relation to accession, special training courses have been provided for council members, with a view to their new competences and responsibilities. Study tours to EU Member States as well as conferences with invited specialists on the EU in general, and specifically on Structural Funds have been organised several times.

#### *Involvement of social partners in regional development*

Regional development policy involves several actors who are supposed to act on the principle of partnership. This partnership first of all means that the responsibilities and institutional tools of regional development are shared by central and local governments as well as by the private sector and civil society. Act XXI of 1996 on Regional development followed the principle of partnership and intended to involve as many stakeholders into the regional development activities as possible. The Act stipulated the setting up of *county councils of regional development*, with the following composition: representatives of local governments (those of small settlements, counties and cities with country rights), representatives of economic chambers and those of the employer and trade union sides of county labour councils.<sup>34</sup> 13 of the 18 representatives of regional development councils were from the various local governments while chambers had three and social partners had two representatives.

A research on the delegates of labour market boards in county development councils (Tóth 2001a, pp. 140–151) found that “(...) the interests of alliances of local governments of small municipalities are fundamentally different from those of the rest of the representatives”; (...) “alliances of local governments of small municipalities are the dominant force and as a result they advocate their interests unscrupulously”; (...) “the interests of local governments are dangerously different from those of employers and employees”; (...) “the priority in the regional development councils were infrastructural investments,

<sup>34</sup> While, in theory, the *regional development councils*, set up in the seven statistical-administrative regions at a later stage, have also been established according to the partnership principle, representatives of social partners have not been invited to participate. The regional development councils are not discussed in this paper.

often to the detriment of job creation”; (...) “the opinion of the labour market board was disregarded, partly because of the way and mechanism of preparing decision making and partly because of proportions of votes”; (...) “the composition of regional development councils are fundamentally influenced by political considerations”. As clashes of interests were of a structural nature, it is not surprising that county councils of regional development were restructured entirely.

*County development councils – without social partners.* In November 1999, the two sides of labour market boards lost their membership and their right to send delegates to the county council of regional development.<sup>35</sup> Since then, the legislation tackles only rather broadly the involvement of social partners in regional development: “The county council of regional development shall fulfil its employment policy related functions in coordination with the county labour council. (...) To fulfil its responsibilities, the county council of regional development shall cooperate with the various local governments, the state administration organs involved directly and indirectly in the development activities in the county as well as with the relevant civil and professional organisations and the county labour councils.”

Although the social partner delegates of labour councils were in minority in the multi-partite county council of regional development and were unable to efficiently pursue their interests, the labour councils still regarded the amendment of the Act and their exclusion from the county development council a great loss. Members of labour councils still consider it desirable to better coordinate and institutionalise the cooperation between interest reconciliation on general economic development issues on the one hand, and on employment, labour market related issues, on the other. They also find it necessary to involve the representatives of the employer and trade union sides of labour councils as full members into the various bodies (both at county level and in the statistical-administrative regions) engaged in reconciling interests on broad economic and development matters.

*Participation of social partners in development councils of micro-regions.* What was lost at county level (and never granted at the level of statistical-administrative regions) was eventually given to social partners in micro-regions: they became institutionally involved in development issues. The amendment of the Act on Regional development, coming into effect in September 2004, invited social partners to the newly established *development councils of small-areas*.<sup>36</sup> These development councils were set up to coordinate development functions and tasks locally, to adopt the development concept of the given small-area, and plan common development programs involving various small-areas. The development councils of small areas, however, have assigned significantly

35 Members of the council are: chair of the county assembly, mayor(s) of city (cities) with county rights on the territory of the county, a representative of the minister, three representatives of regional development alliances of local governments in the county, the head of the county (Budapest) agricultural office and a representative of the regionally competent office of tourism.

36 Development councils of small-areas are legal entities registered with the competent regional office of the Hungarian State Treasury. The head of the public administration office of the county where they are based controls the development councils of small-areas.



different roles and responsibilities to social partners as county councils of regional development used to.

The main function of development councils is to coordinate the development ideas and priorities of local governments and their regional development alliances, and of businesses active in the given territory in order to promote the social, economic and environmental development of the given area, in accordance with the agreed development plan for the small-area. Therefore, the role of development councils goes far beyond the distributor of public resources. It also encompasses interest reconciliation and coordination: co-operation with local governments and with their regional development alliances, with state agencies operating in the small-area as well as with relevant social and professional organisations and businesses.)

The members of the councils are:

1. the mayor of each municipality of the micro-region with the right to vote;

2. one representative of each of the economic chambers active in the micro-region; one representative of the county development council; one local representative of those employer organisations that have the right to nominate delegates to the county labour councils; similarly, one local representative of those trade unions that have the right to nominate delegates to the county labour councils; one local representative of national professional organisations of craftsmen and retailers; one representative of civil organisations delegated by the forum of civil organisations; one representative of the county public administration office; and the representative of the regional administration of the Hungarian State Treasury – all of them with consultation right;

3. the representatives of those economic, social and other organisations are also invited to participate in the discussions with consultation rights which are directly affected by the decision of the development council as well as any other organisations asked to participate in a given sitting; development councils of small-areas may also regulate the participation of minority self-governments;

4. all civil organisations in the small-area registered by court have the right to participate in the development council with consultation rights that have set up an interest reconciliation forum among themselves to discuss regional development issues, and have indicated to the development councils their request to be involved.

Clearly, once again regional development has a link with county labour councils even if not quite as directly as it used to be with the county councils of regional development. The major difference relies in the fact, that members of the small-area development councils are not nominated by the respective sides of the county labour councils, but by those employer organisations and trade union confederations that have right of delegation to the county

labour councils. Thus it might occur that the local representatives of social partners in the development councils have no institutionalised connection to county labour councils.

Representatives of social partners in the small-area development councils do not have voting rights. They only possess consultation rights, similarly to all the other participants except for the mayors.

To sum up: with the subsequent modifications of the Act on Regional development, social partners have practically been ousted from most of the regional development activities. The only terrain where they can exercise their limited rights, among many other stakeholders having the same or even stronger rights, is the development councils of small-areas. For social partners, broad development issues at county level and in the statistical-administrative regions are simply out of reach.

*Social partners in the monitoring committees.* While social partners have played a limited (or no) role in formulating regional policy and developing various programs for economic, social and environmental developments, they have been continuously involved in monitoring the use of the European financial sources provided for the same purposes.

Social partners were invited to monitor the spending of the targeted EU funding for regional development<sup>37</sup> as early as before accession. At that time, regional development councils submitted their so-called preliminary regional development programs in line with the preliminary national development programs. To monitor and evaluate the implementation of these programs *regional monitoring committees* were set up in which the employer and workers sides of county labour councils could participate, with one representative each, having consultation rights.

This role has been maintained<sup>38</sup> after accession, though somewhat less exactly defined by legislation. Social partners are, nevertheless, involved in the various monitoring committees responsible for monitoring the implementation of the various development plans financed from the Structural Funds (such as the overall Community Support Framework, and the various operational programs, including the Human Resources Development Operational Program).

### *Employment pacts with the involvement of social partners*

37 Government decree 89/2001. (VI. 15.) on the rules of spending the regional development targeted estimate. (not in force as of 7th March 2003).

38 Government decree 124/2003. (VIII. 15.) on establishing the monitoring system of programs implemented with funding from the European Union.

Employment pacts, traditional agreements in regional industrial relations in several old EU Member States, first appeared in Hungary in the early years of this millennium. (Just to give an indication of the Community practice: in 1997, the European Union launched or supported 89 pilot programs aiming at concluding employment pacts, financed from the European Social Fund).

An employment pact, as it is widely interpreted, is a written agreement of the actors of the regional labour market to jointly set and meet employment

goals. (The notion of pact is to be understood in the broad sense as stakeholders may include persons or organisations that in the given moment are not directly related to the labour market but are interested in meeting the goals of the pact, and are ready to work for that end.) In the frames of the pact, the partners usually start with mapping the employment situation in the given region, they explore the magnitude, the characteristics and the causes of unemployment; in order to tackle the identified difficulties and problems, they coordinate economic and human resources development ideas and priorities; they also make sure that available financial resources are efficiently spent; they implement jointly the agreed programs.

Typical partners, stakeholders of pacts are the following: local governments, the Public Employment Service and its regional offices, the county labour centres, employers in the given territory, training institutions, social partners civil organisations. Employment pacts are the best examples for implementing the partnership principle – a precondition in case of Community funding.

In practice, there is no employment pact without the involvement of the social partner concerned. Thus the recent spread of employment pacts has lead to a growing role of social partners in interest reconciliation, in regional industrial relations. Social partners also actively participate in the operative organs in charge of implementing the pacts.

The number of pacts and their coverage (not only in the geographical sense) has been growing in Hungary. The non-exhaustive list of the current employment pacts is as follows: Kemenesalja small-area employment pact; Letenye regional employment pact; Zalaszentgrót employment pact; Hungarian-Slovak cross-border employment pact; Hungarian-Austrian cross-border small-area employment pact (Lövé); Baranya employment pact.<sup>39</sup> Experience shows that employment pacts can effectively assist solving (or at least easing) employment problems, while the possibilities and roles of social partners in interest reconciliation have been increasing too. Employment pacts do not have a legislative underpinning; their distinctive feature is the voluntary cooperation of the stakeholders. The positive experience with voluntary, autonomous cooperation may reverse the trend of the past decade – when legislation and structures of regional industrial relations have kept driving social partners towards those forms of cooperation in which the corporative elements were dominant (if not exclusive).

<sup>39</sup> In June 2004, a declaration of intention for an employment pact was signed on the initiative of the Local Government Assembly and Labour Centre of county Békés; preparations for concluding an employment pact also begun in the Szeged area.

## 2.2 The Sectoral Level – Efforts and Trends

MÁRIA LADÓ AND FERENC TÓTH

In the Hungarian industrial relations system the middle level is so underdeveloped compared to the company and national levels that it is almost altogether missing. Too few sectoral and regional collective agreements with low coverage, weak and rudimentary dialogue between the social partners, meaningless or missing tripartite cooperation – these have long characterised the middle level of industrial relations in Hungary.<sup>40</sup>

### *Efforts in the 1990s*

To develop or revitalise the sectoral level of industrial relations was one of the goals of the – later aborted – attempt at a *social and economic agreement*. Similarly, it was a priority in the various reform concepts aimed at renewing industrial relations.<sup>41</sup> In early 1996 a consensus was reached in the Interest Reconciliation Council, the national tripartite forum at that time, that collective bargaining and agreements were to be promoted at all levels, including sectoral. For that end a tripartite *ad hoc* team was set up, but ultimately it could not bring about a breakthrough.

In July 1995, a tripartite meeting was held with a special focus on sectoral collective bargaining. In the framework of the joint project of the National Association of Hungarian Trade Unions (MSZOSZ) and the Alliance of Autonomous Trade Unions (ASZSZ) launched with the assistance of the International Labour Organisation (ILO), several regional conferences were organised in 1998 and 1999 to enhance collective bargaining – most importantly at sectoral level.

These efforts shared three main features:

1. They *focused exclusively on collective bargaining and collective agreements* and neglected other possible forms of a – bipartite or tripartite – sectoral cooperation nature.<sup>42</sup>
2. Most of them *failed* to have any *impact* on collective bargaining *practices*.
3. They did not identify the need to create a permanent “*institutional framework for bargaining*”.

While not much was achieved in terms of concrete results, by the last third of the 1990s the common understanding shared by the government and the social partners was that “something must be done at sectoral level”. This resolution was strengthened by Hungary’s preparations for EU membership and the pressure by the European Commission to take specific practical steps.

### *Requirements of the European Union*

In order to interpret faithfully the requirements and expectations of the European Commission, expressed on behalf of the Member States, some comments first need be made on the terminology used in official Commission

<sup>40</sup> For a more comprehensive study see Ládó–Tóth (eds) (1996).

<sup>41</sup> Ládó–Tóth (1995). Particularly about collective bargaining see MúM (1997).

<sup>42</sup> For instance, consultation with the relevant line ministries; consultation in the legislative process relevant for the sector; bipartite activities that while not meeting the criteria of collective bargaining are ways for sectoral social partners to develop sectoral regulations and guidelines, such as codes of conduct.

documents. In the European Union, the term “social dialogue”<sup>43</sup> stands for the bipartite relations between social partners; occasionally the adjective “autonomous” is added to underline this understanding.

The most important area of social dialogue in this interpretation is the “sector” – both in the European Union as a whole and in most Member States.<sup>44</sup> Consequently, Commission documents when recommending candidate countries to enhance social dialogue evidently meant the development and reinforcement of bipartite cooperation, primarily at sectoral level. Wording later became unambiguous, especially when recommendations were also made in relation to enterprise level industrial relations.

The first reference to social dialogue was already made by the document *Hungary: Accession Partnership – 1998 (EC 1998)*, urging the “further development of active, autonomous social dialogue”. A year later, *Accession Partnership – 1999 (EC 1999a)* set it as a short term priority to “... support social partners’ capacity-building efforts to develop and implement the *acquis*, notably through bipartite social dialogue”. *Accession Partnership – 2002 (EC 2002b)* was very specific by indicating the following priority areas: “... continue to support social partners’ capacity-building efforts, in particular with a view to their future role in the development and implementation of Community employment and social policy ... Particular attention should be paid to enhancing the social partners’ capacity to conduct social dialogue ...”

The annual reports assessing Hungary’s progress towards accession have regularly covered industrial relations. For instance, the 2000 Regular Report emphasized: “Lack of effective consultations at national level could have negative effects on social dialogue, not only at European level, but also at the decentralised level (sectors, regions and enterprises). No concrete steps have been undertaken to strengthen autonomous social dialogue at these levels.” (Regular Report 2000.)

The Regular Report 2001 openly stated that “Autonomous sectoral social dialogue continues to be rather weak with a few collective agreements signed at sectoral level.” Priority tasks specified in the document included the following: “Sound developments in social dialogue should be actively promoted. ... Autonomous social dialogue, especially at sectoral level, should be promoted. Social partners should make more use of their autonomy to conclude agreements among themselves.” (Regular Report 2001.)

The Regular Report 2002 emphasised that “autonomous bipartite social dialogue needs to be reinforced at sectoral and enterprise level, and its coverage extended, both in terms of enterprises and of percentage of the labour force covered by collective agreements.” (Regular Report 2002.)<sup>45</sup>

The few pending issues raised by the *Comprehensive monitoring report on Hungary’s preparations for membership (EC 2003)*, the last assessment before accession, included social dialogue, particularly the sectoral level: “...autonomous bipartite social dialogue needs to be improved at all levels and the number of collective agreements signed at sectoral and enterprise level increased. The social partners’ administrative capacity, primarily for entering into social dialogue at European level, is to be reinforced, too.”

The requirements of the European Union in the process of accession negotiations were not only specified by the Commission documents. The various statements of the other European institutions, especially those of the Economic and Social Committee and the European Parliament and the views of the European social partners were equally clear messages. A Report of the European Parliament (A5-0248/2000), for example emphasized that “the existence of a representative and autonomous social dialogue constitutes an indispensable element of the accession preparations”.

43 By social dialogue the European Commission, and most of the Member States, mean the process of continuous interaction between the social partners with the aim of reaching agreements on the control of certain economic and social variables falling in their competence. For details see: *Ladó (2004)*.

44 For details see *Ladó (2004)*, *Visser et al (2002)* and *EC (2000a)*.

45 The Regular Report (2002) the PHARE project designed to strengthen autonomous social dialogue in a separate chapter, to be discussed later.

On the whole, the requirements of the European Union set two tasks for Hungary as regards the *sectoral level of industrial relations*:<sup>46</sup>

- social partners have to develop and strengthen their autonomous social dialogue, with the adequate assistance of the government;
- social partners have to reinforce, similarly with the adequate support of the government, their administrative capacity so that they can meet both their domestic and European responsibilities.

The question, however, is why the European Commission, and Member States, have urged accession countries to reinforce their industrial relations and to develop first of all the sectoral level. Here some arguments will be highlighted – without discussing in detail the role of social dialogue in the European Union and the complex relation between Community and national level endeavours.

1. Social dialogue is undoubtedly part of the legal *acquis communautaire*, as there are several directives with special provisions as regards social dialogue in the Member States. The legal *acquis* take as granted the existence of social dialogue and thus assign further tasks, obligations and rights. The legal *acquis* include primarily provisions on social dialogue at the enterprise level; however, there are community norms related to other forms of industrial relations at higher levels as well.

2. At the same time, “social dialogue should not be understood purely as a component of the *acquis* but as a means for bringing this *acquis* into practical effect.” (*Quintin* 2000, p. 2.). A prerequisite to this is that Member States have well developed and structured social dialogue and industrial relations. If, for example, collective bargaining is underdeveloped, it is uncertain how those community objectives and principles will be transposed that are left to the competence of social partners by community regulations. If social dialogue has serious institutional and operational deficiencies, the *acquis* can simply not be transposed and implemented in practice.

3. Social dialogue is part of the institutional *acquis*, too. The various structures and procedures of the European social dialogue have become indispensable elements of the working of the European Union, especially in its social policy. One structure, the *sectoral dialogue committees*, has been playing a key role for the past decades. Whenever assessing the industrial relations of accession countries, the European Commission has always focussed on how much these serve the meaningful cooperation between the community level and the future Member States. While, of course, the European Commission never specified any “membership criteria” for industrial relations (such as the number or structure of institutions etc.), it did though strongly recommend a certain “alignment” and urged the development of the sectoral level, missing in most accession countries. The Commission did so on the understanding that the social partners in candidate countries could integrate more easily

<sup>46</sup>In the accession negotiations, the European Commission set similarly specific requirements on the national (central) and enterprise (micro) level of industrial relations. See *Ladó* (2000a).



and efficiently into the complex system of European social dialogue if their national industrial relations systems were not too far removed from the values and practices of European social dialogue, or at least if they are developing in that direction.

4. The strong emphasis on social dialogue and industrial relations in the negotiation talks can also be traced back to the intention of the European Union to ensure that with enlargement nothing clogs the already halting machinery of European social dialogue. This could only be guaranteed if the social partners in accession countries had sufficient experience in the area of industrial relations and social dialogue, and were already experienced in playing those roles at home that they were supposed to undertake later at European level.

Therefore the European Commission urged the strengthening of autonomous social dialogue at sectoral level, albeit without making (indeed it was not empowered to do so) any concrete recommendation or requirement concerning the method and institutional framework.

### *Building structures with external assistance*

It is probably impossible to tell whether sectoral dialogue committees in Hungary would have ever been formed, and if yes, when, if

- the government and the country had not been under the “Brussels pressure” described above, and
- the European Commission had not approved the project on *Strengthening autonomous social dialogue*<sup>47</sup> and, as a result, the sectoral level of industrial relations had not been given political attention, technical assistance and substantial funding.

Given the failures of efforts in the 1990s briefly discussed earlier, we believe that the technical and financial support from the EU was essential to the eventual making of real progress at sectoral level. The trap, however, was that in the pre-accession period only the governments (as candidate countries) could be the beneficiaries of community (PHARE) funding, as a consequence of which the project on strengthening the autonomous dialogue of sectoral social partners became formally a government project in terms of contractual obligations and the responsibility for implementation. To “offset” this, a series of guarantees were built into the management and decision making mechanism of the project: first of all the tripartite Sectoral Council was set up with the participation of representatives of the national confederations of social partners, which operated as the decision making body of the PHARE project *Strengthening autonomous social dialogue*. This solution, again, had its own trap, by providing far reaching power to national cross-sector confederations on sectoral developments.

The European Union provided technical assistance and financial support to strengthen social dialogue at sectoral level, but – contrary to widespread

<sup>47</sup> The content of the project was outlined by the then Economic Ministry in late autumn 2000. First, in 2000 a draft was prepared; the decision on the PHARE project *Strengthening autonomous social dialogue* was made in February 2001 (Proposal for the National Labour Council: Discussion of the draft of the PHARE project on setting up Sectoral Social Dialogue Committees and setting up an Operational Committee). The European Commission approved the project and decided to provide funding of EUR 2 million in March 2001. The pre-accession twinning partner was a Danish consortium. The covenant was signed on 20 June 2002. The original project deadline was 31 December 2003, but in July 2003 it was postponed to 31 March 2004.



misunderstanding and misinterpretation – it never required Hungary to set up sectoral dialogue committees, as such. Setting up sectoral dialogue committees was a choice to achieve the goal to strengthen dialogue between social partners at sectoral level. When the government, having consulted social partners submitted its request for PHARE assistance it also undertook the obligation to create the sectoral institutional system, and when the government eventually signed the PHARE contract, the setting up of sectoral dialogue committees became an international contractual obligation.<sup>48</sup>

The comprehensive evaluation and the full assessment of achievements (or the lack thereof) of the project *Strengthening autonomous social dialogue* have not been yet made.<sup>49</sup> Our analysis also focuses only on some of the key issues. To what extent was the institution building a *copy of models* (given the role of community funding and foreign experts) or an *organic development*, i.e. a bottom-up process based on national traditions? How adequate are the *legal, organisational, financing etc. regulations* on sectoral social dialogue in the sense that they are to integrate the new sectoral structures into the existing system of industrial relations? Was a fair balance achieved between governmental responsibility and fully respecting the autonomy of social partners?

### *Goals and priorities*

The objectives of the project have been interpreted by many and in many ways – due partly to the differences in understanding EU terminology, and partly to the different versions of translations of the relevant documents.<sup>50</sup> Here we will try to accurately interpret the original aim on the basis of the initial document of the project.<sup>51</sup>

Fundamentally, the project was intended to facilitate the *establishment of a functioning system of industrial relations* in the following way:

- complement the existing tripartite industrial relations structures (the formal discussions held between the government and social partners) with bipartite channels of social dialogue at sectoral level;
- the purpose of “complementing” is to address sector specific issues by those most concerned in the most appropriate way for the given issue (from consultation with the government to bipartite negotiations and collective bargaining);
- the project fiche declares that the tool of “complementing” is *sectoral committees* to be set up in all sectors where social partners jointly so request;
- *sectoral committees* will provide social partners the opportunity to prepare for participation in similar structures at European level.

The fundamental goal was to create and improve the largely missing *intermediate level* of industrial relations in Hungary. The relationship with sectoral dialogue committees of the European Union<sup>52</sup> was only mentioned in the

48 This means, that if Hungary had failed to set up the sectoral dialogue committees (as many as agreed and by the deadline specified in the contract), it could have been reproved, and eventually sanctioned by the European Commission. This sanction, however, would have been due to breaching of the international contract rather than because of not meeting EU requirements or because the EU intervened in national affairs.

49 On the history of the project see for instance *Lux* (2004a), (2004b); *EMM* (2003), *PHARE* (2004). See a first attempt to give a comprehensive evaluation in *Berki* (2004).

50 In addition to analyses of the project mentioned earlier see for instance *Neumann-Tóth* (2002).

51 A standard summary project fiche. Project number HU0104-01. Interpretation of the document is made easier for the authors as they participated in its drafting and in launching the project.

52 In Hungarian see more: *Ladó* (2003a), (2004); *Borbély* (2004).

context that sector level cooperation in Hungary would help prepare sectoral social partners to participate in similar cooperation at European level and to better understand European level interrelations. The goal of the project, thus, was not to “copy” the sectoral dialogue committees that existed in the European Union.

In addition to the general (and somewhat awkwardly worded) overall aim, the project fiche identified the following objectives:

- establishment of institutionalised co-operation between the workers’ and employers’ organisations of the given sector in the framework of sectoral committees enhancing bipartite consultation at sectoral level;
- reinforcing social partners bargaining activity<sup>53</sup> at sectoral level;
- building a closer interaction with the relevant Sectoral Dialogue Committees at European level;
- enhance the administrative capacity of the government on social dialogue in order to assist the development of social dialogue;
- ensure a better linkage between tripartite consultations and autonomous sectoral social dialogue;
- ensure a better linkage between sectoral social dialogue and social dialogue at enterprise level.

The initial project document actually identified several important characteristics of the future sectoral dialogue committees, such as:

- their setting up on a voluntary basis;
- bipartite structure;
- the government’s supporting role – and no participation for the government in sectoral dialogue committees;
- the competence of the committees, i.e. consultation and bipartite negotiations (not only collective bargaining) on sectoral issues;
- focussing on domestic issues (as sectoral dialogue committees are meant to be the “training field” to prepare for participation at similar European structures).

As much as possible, the objective of the project had to be identified in quantitative terms too. First, in the project fiche, the obligation was undertaken that by the closing date of the project, the number of sectoral committees will be “around twenty”. Based on the decision of the National Labour Council, the contract eventually specified 18 sectors where committees were to be set up.<sup>54</sup>

The project fiche as well as the international contract, however, have consciously left a number of issues open. First of all the definition of “sector”, the definition of sectoral social partners, the criteria of participation in the sectoral committees, the time schedule of establishing the sectoral committees and the legal foundation of the new structures of industrial relations and their integration in the existing legal system – these dilemmas were all

<sup>53</sup> Early documents of the project consciously mention not only collective bargaining but bargaining, i.e. negotiations in general.

<sup>54</sup> This is the list of sectors opting for participation in the project with the purpose of setting up their respective sectoral committees in the course of the two years of the project. The sectors are the following: 1. hotels and restaurants and tourism, 2. light industry: textile, leather and clothing, 3. electricity and energy 4. commerce, 5. agriculture, 6. food, bakery, canning, sugar and cooling industries 7. construction, 8. metallurgy, 9. water management and local public utilities, 10. postal services and telecommunication, 11. chemistry, 12. air transport, 13. railways, 14. machine industry, 15. road transport, 16. education, 17. healthcare, 18. culture and arts. See the list of currently functioning sectoral dialogue committees and their participants in the statistical appendix of the volume.

meant to be clarified by an *inspiration document*. This document, was, however, never finalised. Its role was eventually fulfilled, according to the decision of concerned parties, by a *framework agreement* signed by the tripartite Sectoral Council, on 2 July 2003.

### *A snapshot of achievements*

“The purpose of the project was achieved, the system of social dialogue is operational, and its basic institutions have been established. As a result of this project, an organized sectoral dialogue emerged to enforce the bargaining capacity of the social partners in bi- and tripartite discussion and to increase the number of sectors involved.” – runs the evaluation in the document officially closing the project (Interim Evolution Report R/HU/SOC/04002 Final Version) The National Interest Reconciliation Council, which monitored the project implementation and delegated the members to the tripartite Sectoral Council implementing the project confirmed that “the PHARE project on strengthening autonomous social dialogue was successfully closed at the closing conference held on 27 January 2004” (*OÉT* 2004).

With the project over, however, institution building was far from being finished. It is, therefore, not easy to make a sort of “balance sheet” of achievements and tasks still to be done. In the *box* below a broad outline is given for the state of affairs in late October 2004, when the government and sectoral social partners had already signed the agreement on the conditions and rules of the operations of sectoral dialogue committees that would serve as regulators as long as relevant legislation is not in place (*Megállapodás az ágazati...,* 2004). Our assessment includes not only concrete achievements “attesting”<sup>55</sup> to the implementation of tasks identified in the various project documents but also indirect, yet key achievements and tasks.

The achievements in the various sectors were, of course, different. In the framework of an empirical research, three sectors were investigated in detail: commerce, light industry, and tourism and hotels and catering.<sup>56</sup>

In all three sectors, there had been a several decades long *tradition* of cooperation between sectoral social partners, though very differently in terms of the number of social partners involved in the cooperation (and the number of “those left out”), the main orientation of the cooperation (bipartite vs. tripartite, and in the case of bipartite collective bargaining or joint actions) and the success of cooperation. Similarly, in all three sectors contacts with *sectoral social partners in the European Union* had an impact, but again differently in form and intensity. Social partners were *centralised* to different degrees in the various sectors (which was one of the reasons for selecting these sectors).

In all three sectors a sectoral dialogue committee was set up and *Table 2.1.* summarises the main characteristics at the time of the research closing (November 2004).

55 Document *FMM* (2004), 6381-1/2004.-MCKFÖO is this kind of evaluation. On the results in the first implementation phases see *Lux* (2003).

56 The research was financed by the National Employment Fund (OFA CXIII-91). See detailed research findings in *Ladó-Tóth* (2004). In addition to the findings related to the three sectors selected, this section relies also on the general lessons of the empirical investigation. On the overall situation of sectoral social dialogue in Hungary, including light industry, see also *Ladó* (2003b).

## Establishment of sectoral committees in Hungary

### – achievements and future tasks (state of affairs in October 2004)

#### Achievements and results related to the PHARE project

- Sectoral level of industrial relations received political and professional attention.
- In addition to tripartite cooperation, the autonomous and indispensable role of bipartite relations was recognised.
- Sectoral social partners have vigorously appeared (or organised in certain sectors).
- The relations between sectoral employers' organisations and sectoral trade unions strengthened (or were established in some of the sectors), and were mutually legitimised as "representatives of the sector".
- The actual state of affairs in sectoral level industrial relations was widely investigated (sectoral studies analysing the situation, comparative studies, project documents).\*
- European level sectoral social dialogue and consultation was widely studied (training, study tours, translation and publication of the relevant literature)
- A framework agreement was signed on *the guidelines of the setting up and functioning of sectoral dialogue committees* (2 July 2003).
- An agreement was made *on the conditions and regulations of the functioning of sectoral dialogue committees until relevant legislation is in place* (22 September 2004).
- Altogether 29 sectoral or sub-sectoral dialogue committees were set up (by signing a declaration of intention or by agreement) and actual work was started within these institutional frameworks (up to late October 2004).
- The Sectoral Dialogue Centre was established to coordinate and facilitate the work of sectoral dialogue committees.
- The secretariats of sectoral dialogue committees were partially established.

\* The papers were made widely available by the Ministry of Employment and Labour electronically on *INFO-CD – a HU 0104-010 on the PHARE program to strengthen autonomous social dialogue*. Electronically published in January 2004.

\*\* The Council of Sectoral Dialogue Committees was set up on the autonomous initiative of a series of freshly established sectoral committees as a sort of coordinating – body facilitating the flow of information. In the final phase of the project, the Council of Sectoral Dialogue Committees worked in parallel, and heavily rivalling, with the tripartite Sectoral Council, which was originally set up to manage the project. In our view, the Council

#### Unsolved issues, future tasks

- To integrate the strengthened (established) sectoral level in the system of industrial relations and to fully recognise the legitimacy and role of the sectoral level;
- One though far from exclusive element of this is the legal definition of the place and role of sectoral industrial relations and the development of the relevant legal regulations on sectoral institutions and procedures;
- To decide the future role of the tripartite Sectoral Council (originally set up to manage the project) and of the Council of Sectoral Dialogue Committees\*\* (set up on the initiative of the sectoral partners themselves in the margin of the project) and to integrate the remaining council(s) in the system of industrial relations;
- To make provisional regulations (*"Agreement on the conditions and regulations of the functioning of sectoral dialogue committees until relevant legislation is in place"*) final and issue them as legal regulations and thereby establish the legal foundations of the sectoral structures;\*\*\*
- In order to improve sectoral consultation, to strengthen – in some sectors to establish – cooperation with government agencies (ministries and authorities) concerned;
- To complete the administrative background (organisational framework, human resources, financial resources etc.) that assist sectoral dialogue committees,
- To ensure the long term functioning and development of both sectoral dialogue committees and their supporting administrative background, and guarantee the necessary conditions for their operations;
- To continue the training of sectoral social partners, to support – in some sectors establish – their relations with European sectoral social partners and European sectoral dialogue committees.

of Sectoral Dialogue Committees should be integrated into the system of industrial relations as its coordinating function is needed in the long run, while the tripartite Sectoral Council has ceased to have any role since the project is over.

\*\*\* While in the system of industrial relations tripartite and bipartite structures do not necessary need a legal foundation, in the case of sectoral dialogue committees this seems to be indispensable, especially because the committees are planned to be authorised to conclude collective agreements binding automatically for the entire sector. Given the importance of this authority, legal guarantees must be ensured.

Table 2.1: Sectoral dialogue committees – their main features

	Commerce	Light industry	Tourism and catering
Level of development* of the sectoral dialogue committee at the time of the research closing (November 2004)	well developed, partly due to early establishment	the least developed of the three sectoral dialogue committees compared	while it was the last to be established, it worked promisingly from the very beginning and on the whole became fairly developed
The content of the agreement between social partners setting up the sectoral dialogue committee	an amalgamation of the overall goals of the PHARE project and of the individual objectives of social partners	a general set of goals reflecting the common ideas of social partners	the most specific and detailed agreement, close to a work programme
The role of the PHARE project in developing/strengthening sectoral cooperation	<p>"facilitator" role:</p> <ul style="list-style-type: none"> <li>– assisted to formalise the already existing cooperation between social partners,</li> <li>– directed political attention to the sectoral level</li> <li>– social partners expected the project to provide direct financial support</li> </ul>	<p>"legitimising" role:</p> <ul style="list-style-type: none"> <li>– formally established a new institution on the basis of the provisional sectoral dialogue committee set up in 2001</li> <li>– increased participants both on the employers' and workers' sides</li> <li>– social partners expected direct and substantial financial support from the project</li> </ul>	<p>"complementary" role:</p> <ul style="list-style-type: none"> <li>– in addition to concluding sectoral collective agreements, it gave an institutional framework and infra-structural background to the lobbying activities with decision makers and to consultation with the government</li> <li>– social partners expected direct financial support from the project</li> </ul>
Priorities of social partners a) bipartite vs. tripartite cooperation	equally stressed; at certain stages of institution building, however, the preference was given to tripartite cooperation (possibly with a tripartite institutional structure)	equally stressed; the most important, however, was meaningful cooperation, by which primarily cooperation with the government was meant	in the new institutional framework more emphasis was placed on tripartite cooperation, given the extended sectoral collective agreement already in place; as a result, at the early stages of institution building the tripartite structure was preferred
b) within bipartite cooperation, collective bargaining and concluding collective agreement vs. "looser" cooperation	the trade unions' side stressed collective bargaining while the employers' side, due to its internal differences, preferred looser cooperation on the whole	the emphasis was on continuing looser cooperation; trade unions, however, urged for collective bargaining, the employers' side, ridden with internal conflicts and differences of opinion, had no uniform standpoint	the priority on both sides was collective bargaining and concluding collective agreement, with a special view to sub-sectoral agreements.
The influence of the relevant European Sectoral Dialogue Committee on the Hungarian sectoral body	direct but moderate; stronger on the trade unions' side than on the employers' side (partly because of the internal division of the latter)	limited; strong on trade unions' side and very weak on employers' side (due to the internal division of the employers' side and the missing membership to European sectoral organisations)	direct, the strongest in the three sectors
Level of preparation of social partners to participate in the relevant Sectoral Dialogue Committee of the European Union	most of the actors are professionally prepared	some of the actors are professionally prepared	all social partners are professionally prepared
Factors that mostly influence the future of the Sectoral Dialogue Committee (in order of importance)	<ul style="list-style-type: none"> <li>– the relationship of the government with the sectoral dialogue committee: to what extent sectoral social partners will be involved in sectoral policy and decision making</li> <li>– the marked difference of interests of the various employers' organisations within the sector</li> <li>– strengthening the representativeness of social partners through involving on the one hand multinational commerce chains and on the other hand small and micro employers in sectoral social dialogue and consultation taking place in institutionalised frameworks</li> </ul>	<ul style="list-style-type: none"> <li>– consolidation of sectoral social partners (on both sides but because of different reasons)"</li> <li>– managing financial difficulties – which, however, is inseparable from the problem of the fragmented nature of social partners</li> <li>– the relationship of the government with sectoral dialogue committees: to what extent sectoral social partners will be involved in sectoral policy and decision making and thereby how meaningful tripartite cooperation could become</li> </ul>	<ul style="list-style-type: none"> <li>– the relationship of the government with sectoral dialogue committees: to what extent sectoral social partners will be involved in sectoral policy and decision making</li> <li>– setting up sub-sectoral committees and involving additional social partners of the sector</li> </ul>

(Notes see on the facing page.)



\* The level of development of the sectoral dialogue committees is a complex indicator used in the research to signal to what extent the sectoral institution has started to actually operate; how much is this operation adequate to meet the challenges in the sector; and whether sectoral social partners are sufficiently prepared, strong and committed to run the sectoral body in the long run. The level of development, as an indicator, was used in relative terms in the course of the research and played a role already in selecting the sectors for empirical investigation. The three sectors selected for detailed analysis were among the most developed ones of the 29 set up in the course of the project.

The Light Industry Sectoral Dialogue Committee was set up (3 April 2003) by the following social partners on the workers' side: Trade Union of Leather Workers (Bőripari Dolgozók Szakszervezete, BDSZ), Trade Union of Workers in the Clothing Industry (Ruházatiipari Dolgozók Szakszervezete, RDSZ), Trade Union of Textile Industry Workers (Textilipari Dolgozók Szakszervezete, TDSZ), Trade Union of Workers in Local Crafts and City Businesses (HVDSZ 2000), The Textile and Clothing Branch of Works Councils (Munkástanácsok Textil és Ruházati Ágazata); on the employers' side: Hungarian Association of Light Industry (Magyar Könnyűipari Szövetség, MKSZ), Federation of Hungarian Dressmakers (Magyar Ruhagyártók Egyesülése, MRE), Leather and Shoes Industrial Federation (Bőr és Cipőipari Egyesülés, BCE), Association of Hungarian Shoemakers (Magyar Cipőgyártók Egyesülete, MCE), The Textile and Clothing Industry Section of National Association of Entrepreneurs and Employers (Vállalkozók Országos Szövetsége Textil és Ruházatiipari Szekciója, VOSZ), Leather, Clothing and Textile Industry Section of National Association of Craftsmen's Corporations (Ipartestületek Országos Szövetsége, Bőr-, Ruházat-, és Textilipari Tagozata Iposz), Leather, Clothing and Textile Industry Section of Hungarian Industrial Association (Magyar Iparszövetség Bőr-, Ruházat-, és Textilipari Tagozata). At the time of setting up the sectoral dialogue committee, founding members did not question one another's legitimacy and representativeness. Most of the social partners had known each other well from cooperation in previous years, primarily from the provisional sectoral committees. Furthermore, "core" social partners of bipartite cooperation were open to involving new social partner organisations any time in representing the common interests of the sector. On both sides of the sectoral dialogue committee there are federations that were organised on the sectoral principle while others on the national confederation principle. A special organisation is HVDSZ 2000 which represents employees of sheltered workplaces and belongs to neither category.

In terms of the *level of development* of the institutional structure of the three sectors (achieved by the time of the research closing in November 2004), the sectoral dialogue committees in tourism and catering and in commerce fall into the same category.

Since its establishment, the *Sectoral Dialogue Committee in Tourism and Catering* worked systematically on areas of special interest for the sector. The committee has dealt, among others, with the issue of VAT, the law on legislative procedures and with the national strategy on developing tourism. The rules of operation, developed jointly by the sectoral social partners, were adopted in June 2004. The Sectoral Dialogue Committee in Tourism and Catering specified the bargaining topics for the sub-committees to be set up with a view to complement the sectoral collective agreement with sub-sector specific agreements. These bargaining topics, include, among others, the following:

- for the *catering sub-committee*: developing a wage tariff system, ensuring continuous employment in catering during seasonal breaks (such as school holidays) etc.,
- for the *travel agencies sub-committee*: guarantees of service quality, conditions of employment of tour guides, minimal criteria of employment in other occupations, developing a wage tariff system etc.;
- for the *hotels sub-committee*: regulating the terms and conditions of employment in the various categories, addressing the problem of continuous work and night shifts, ethical rules in the profession, wage system, bonus in function of revenues, tips etc.;
- for the *restaurants sub-committee*: issuing invoices and sanctions for violation of the relevant rules, security of employees, guarding assets, night work etc.

Similarly, the *Sectoral Dialogue Committee in Commerce* worked consistently, according to its work programme, in the following sector specific areas:

- the new forum provided an institutional framework for *negotiating wage recommendations* for the years 2003 and 2004;
- it discussed the *policy concept on the development of the commerce sector* submitted by the relevant line ministry, which was the *basis for the amendment of the law* on commercial activities;
- the length and organisation of *opening hours* was repeatedly discussed;
- a priority area was the experience related to the introduction of the EU food safety system (HACCP) and problems of interpreting the legislation;
- a decision was made to compile an *ethical code* in order to combat the frequent violation of the prohibition to serve alcohol to young people under 18.

The *Sectoral Dialogue Committee in Light Industry* could achieve less than the other two committees (within the period of our empirical investigation), primarily because of the *sectoral structure of social partners*. While several social partner organisations belong to the founders of this Sectoral Dialogue Committee, the core of the sectoral social partners, traditionally, was made up of four actors: the Hungarian Association of Light Industry (MKSZ) on the employers' side, and the Trade Union of Leather Workers (BDSZ), Trade Union of Workers in the Clothing Industry (RDSZ) and the Trade Union of Textile Industry Workers (TDSZ) on the workers' side. These are the organisations that have been cooperating for several decades and are the dominant organisations on their respective sides. Some other representatives of the sector have begun to participate intensively in sectoral cooperation only recently either because they have just established themselves, or because earlier they had worked separately due to the special needs of their membership. To establish the cooperation, however, between the old "foursome" and the



“new” organisations was not smooth. At the same time, it is the “foursome”, with their good traditions, that can be the basis of a broad sectoral consultation and social dialogue encompassing most of the sector.

It is not the number of social partner organisations on the two sides of the sectoral dialogue committees that matters but the *social partners’ commitment, interests, and readiness to cooperate*. If social partners have accepted a coordinator on their respective sides, it does not really matter any longer how many social partner organisations there are to set up the sectoral body. In the longer run, however, committees with too many actors, tend to be spread too thinly as regards both human and financial resources. Thus we expect fewer social partners to be involved in sectoral activities in the future, which could be a result of both mergers and voluntary quitting sectoral cooperation.

### *Merely model copying?*

In the case of any institution building endeavour one central issue is whether the new institutional system is just simply a copy of an external model or an outcome of genuine development processes. The chances for a simple adoption without much consideration are especially great if the institution building involves structural changes that could fundamentally reshape the entire system of industrial relations. In our case the model copying would seem very likely, given that i) the institution building was funded by external, Community sources (PHARE assistance), ii) the European Commission urged sectoral bipartite cooperation, iii) foreign experts provided technical assistance, iv) the project was timed right before accession, and, last but not least, v) the aim of the project turned out to be establishing sectoral social dialogue committees quite similar to those in the European Union.<sup>57</sup>

Nevertheless, in the sectors investigated empirically, the answer to the question whether merely model copying happened is positively *no*. What the PHARE project on strengthening autonomous social dialogue actually did was no more than providing assistance to social partners in the three sectors that had already cooperated more or less successfully, and channelling their activities into a general institutional structure that was meant to provide a supporting environment for autonomous dialogue. In these three sectors social partners were already determined to strengthen the sectoral level of industrial relations and develop the relevant institutional structure. Clearly, in these sectors the *grassroots initiatives* played the *decisive role* and the development of sectoral bilateral cooperation was organic.

Social partners in the three sectors did not consider European sectoral dialogue committees by any means as a model just to be copied. Nonetheless, they relied on their knowledge about, and experience with, European sectoral dialogue, and used European sectoral dialogue committees as a source of inspiration. Agreements on the establishment of Hungarian sectoral dialogue

<sup>57</sup> It is not typical for the EU Member States that the sectoral level of industrial relations takes the form of committees. The bilateral cooperation of sectoral social partners traditionally manifests itself primarily in collective bargaining and concluding collective agreements. The relationship established through collective bargaining over the years also provides suitable grounds for social partners to initiate additional joint activities (sectoral training, research, developing and implementing joint projects, etc.) and engage in consultation with their national governments. Consequently, model copying as such can only be related to the European sectoral dialogue committees.

committees, in which the social partners themselves specified the agenda, their rights and obligations, and the way they saw their specific role in the system of industrial relations etc., reflect both the European influence (sometimes a word by word translation from European documents) and the reality in Hungary, the possibilities and desires of Hungarian sectoral social partners. For instance, the agreement on setting up the Sectoral Dialogue Committee in Tourism and Catering lists the following objectives, which correspond to the dual objectives of similar European bodies:

1. Represent the specific interests of the sector jointly
  - a) in the domestic economic environment and *vis a vis* public administration and
  - b) in relevant sectoral dialogue committee of the European Union.<sup>58</sup>
2. Conclude sectoral agreements between social partners.

As for the PHARE project *as such*, it is more difficult to assess to what extent it was just copying a model or was a matter of organic development. As said earlier, the project provided ample room to develop solutions that best suit Hungarian circumstances. Furthermore, several key actors in the project had only inaccurate and vague knowledge of the European model to be adopted, and the Danish *twinning partner* offered primarily its own (unique) national system as best practice. Thus, the possibility to copy a model was fairly limited.

At the same time, the institution building at sectoral level was neither a truly organic development as the PHARE project was not a traditional challenge by any means. This was the first occasion in the fifteen-year history of industrial relations that the government and social partners jointly decided about a fundamental structural reform. Clearly, in Hungary there had not been any tradition of conscious institution building, which obviously limited organic development.

### *The institutional framework: why is legislation so late?*

The newly established sectoral dialogue committees could only become genuine, sustainable institutions of industrial relations if the regulations on their mission, powers and responsibilities, organisational setting, finances, operational rules etc. are complete and thus they are institutionally embedded in the niche between the micro and the macro levels of industrial relations.

This is a serious challenge for two reasons:

- the system of *industrial relations* in Hungary is regulated only partially, or to be more accurate, only some of its elements are regulated and, too often, regulated in a controversial way; and additionally,
- in the case of sectoral institutions, the regulations to be developed should both ensure a standardised general framework for all sectoral institutions (providing equal chances and support to each of the sectors) and meet the

<sup>58</sup> This is the Horeca (hotel, restaurants and catering) sector at European level, whose social partners are the European Federation of Food, Agriculture and Tourism Workers (EFFAT) and the Confederation of National Associations of Hotels, Restaurants, Cafés and Similar Establishments (HOTREC).

specificities of the various sectors. The standardised general framework should respect the great variety of the sectors, which is due to such variables as ownership structure, size of undertakings, degree of centralisation, structure of social partners etc.

In principle, there was no legal obstacle to sectoral dialogue committees' getting established and functioning as no prohibiting provisions of law existed. Thus for some, there seemed to be no need to develop a special legislative framework. In order, however, to ensure that the sectoral dialogue committees established in the course of the project would exist and function also in the longer run, a "minimal regulation" turned out to be clearly necessary such as determining i) the competence and power of the new bodies, ii) the rights and the obligations of participating social partners, iii) the role of the government, iv.) the relationship and linkage between sectoral dialogue committees and the other already existing bodies of industrial relations etc.

While a consensus was reached on the most of the above issues (which was then incorporated into the tripartite framework agreement of July 2003, and later confirmed by the agreement signed by the government and sectoral representatives on 22 September 2004), the necessary amendments of legal provisions have not yet been made.

Based on the agreements mentioned, it is expected that the legislation eventually will be issued as an act, and will set in detail the functions and structure of sectoral institutions, the criteria of participation and of the representativeness of sectoral social partners and many other characteristics of the sectoral bodies. The strong adherence to detailed legislative solutions, as suggested by our research findings, can be traced back to several factors as follows:

- The most decisive factor was probably the very fact that the PHARE project was the *first consciously developed institution building endeavour* in the area of industrial relations. It was a shared desire of all parties concerned that the new institutions be created in the most careful possible way.

- Furthermore, *national confederations of social partners* managing the project understood rather quickly that they would only be able to *control* the new sectoral institutions in the long run if the legislative framework were established under their auspices of the tripartite Sectoral Council, and this framework reflects their aspirations.

- Most of the representatives of the government in the tripartite Sectoral Council were receptive of the national confederations' intention to clarify the details in the hope that *the more issues agreed on in advance, the less conflicts they would have to solve later*. The government representatives are rightly proud of having managed, for the first time since the change of the regime, to agree on the method of measuring representativeness with social partners – and to agree on a professional basis. In our view, however, the final outcome

is far too complicated and is not likely to have any real practical influence on the composition and activities of sectoral committees.

- The sectors varied widely in terms of their readiness to establish and operate the new sectoral bodies. While in the three sectors presented in some detail social partners had the theoretical foundations and practical experience to work within a framework type general regulation, in other sectors social partners were far from that capacity. This was the main reason why the tripartite Sectoral Council managing the project eventually opted for developing a regulation as detailed as possible.

- Additionally, national social partner organisations and some of the representatives of the government were *deeply distrustful of sectors and sectoral social partners*. The lack of trust clearly fuelled the propensity to legislate in detail.

The final legislation on sectoral institutions is not likely to deviate much from the framework agreement of July 2003 and the agreement of September 2004. We, however, would welcome some simplification and the careful selection of issues that really require regulation in the form of an act. The remaining issues would have been regulated at a lower level of the legislative hierarchy (such as government decree) or through the agreement of the social partners.

#### *Autonomy – with governmental support?*

No doubt, sectoral dialogue committees are meant for sectoral social partners. They are the social partners who establish the various committees, set the agenda of bipartite cooperation and agree on operational rules. Theoretically, the government's role is limited to ensuring the general regulatory framework that i) integrates the new sectoral institutions into the existing system of industrial relations and ii) provide the conditions of long term operation of sectoral dialogue committees.

While in theory the autonomy of sectoral social partners is not infringed by the government's role to regulate and ensure the general conditions of operation, the two have been a permanent source of conflicts since the PHARE project started.

To put it provocatively, at the time of implementation clashes concentrated on the ownership of the project. At that time the social partners argued in the following way: if the project was really meant for them and the project's true aim was to establish autonomous social dialogue the government should have no, or only a very limited role, in determining the content of the project and, especially, in decision making. The government argued that while the project had meant to support the autonomous activities of sectoral social partners, in compliance with requirements on PHARE social partners and in compliance with requirements on PHARE funding, the government had to sign the in-

ternational contract. Consequently, the government was liable for the implementation. This responsibility made the government actively participate and intervene on some specific occasions. While tensions around the ownership of the project lasted throughout the process of creating sectoral dialogue committees, there are no longer any similar problems. Since Hungary joined the EU the *Hungarian* social partners may directly *apply for community funding to support their autonomous activities*.

One dilemma, however, remained unsolved when the project was over: *should the government or social partners finance* the operation of sectoral bodies, and if it is the government, how much say should it have in return?

According to the social partners, financial resources necessary for the operation of the new sectoral structures should be fully (or largely) provided by the government. The financing role, however, does not authorise the government to intervene in any way in the autonomous activities of social partners or to control the sectoral bodies. In the social partners' arguments, first the government should finance the sectoral committees due to its general obligation and responsibility to support the formal institutions of industrial relations. Second, the government is supposed to be interested in the smooth functioning of sectoral bodies as it makes consultation with sectoral social partners easier, and with their bipartite and collective agreements, social partners play an important role in regulating the sectors. Third, if in any area, it is financing where the European model should be followed: the European Commission has a separate budget line for financing the operation of European sectoral dialogue committees and their secretarial background.

Given the financial situation of sectoral social partners, it seems reasonable that the government should support the new committees – runs the government argument. This support, however, cannot be a blank cheque: public funding can only be used with strict criteria and to meet previously set objectives, including that only sectoral dialogue committees meeting the jointly agreed general criteria of structure and operation can receive any funding from the government.

The issue of financing sectoral dialogue committees, however, cannot be separated from a broader dilemma: the *public financing* of the activities of social partners and of bipartite and tripartite institutions of industrial relations. We believe that a fair, transparent and stable financing mechanism should be developed which is targeted on the institution (and not social partner organisations). As a first step, the effectiveness of the current public funding practice should be reviewed. The questions are numerous: in what way are sectoral social partners currently given governmental financial assistance? To what extent do supports “get stuck” at the level of national confederation? What can be done to use the resources more effectively and efficiently and in a way that produces lasting results? How much is the current state support system

transparent? How can the use of public resources be controlled without intervening in the “internal affairs” of social partners?

The *future* of sectoral dialogue committees, paradoxically, depends mostly on the government, and for two reasons. First, social partners’ administrative capacity is not yet developed enough to maintain and run the new institutions without external assistance. The obvious signs of their weakness in terms of administrative capacity are as follows: sectoral social partner organisations have only a symbolic full time staff (if at all), the poor infrastructure, the scarce financial resources (in some cases scarcity is so great that it is an impediment to every day functioning), and the too few representatives who can be involved in sectoral social dialogue and consultation and whose knowledge and experience in professional areas is adequate (see for details Neumann and Tóth in 1.1 and 1.2 *In Focus*). Second, formal structures can only bring about a real improvement in the quality of industrial relations if the relation between the new bodies and the government is well established and strengthened; if meaningful consultation takes place through which sectoral social partners can be involved in sectoral policy and decision making. As there has always been bipartite cooperation – regular or only on an occasional basis – between sectoral social partners, for them institution building means the *integration* of their collective agreements and other type of agreements and their consultation channels *into the overall governance, or in other words, into the general policy and decision making processes and structures*.

It would be a serious setback of the development of industrial relations in Hungary if the recent sectoral institution building efforts were to abort just as the attempts did in the 1990s. Every responsible governmental decision maker should understand that without a carefully developed legislative basis and adequate financial support only a few of the newly established sectoral dialogue committees would be able to survive in the long run.



## 2.3 Industrial Relations in the Public Sector

ERZSÉBET BERKI

### *The development of institutions of consultation*

The players and institutions of industrial relations changed substantially during the years of the post-socialist transition. The majority of the trade unions in the public services left the trade union confederations encompassing the business and the public sector and moved into two confederations – the Forum for the Co-operation of Trade Unions (SZEF) and the Assembly of Intellectuals' Trade Unions (ÉSZT) – whilst smaller organisations kept their original links and joined the MSZOSZ (the former SZOT) or some new confederation.

The Act on the legal status of civil servants (Ktv.) and public servants (Kjt.) passed in 1992 and following acts<sup>59</sup> separated the employment status of civil and public servants from the general rules of employment and opened the way for a special industrial relations system.<sup>60</sup> The rules of industrial relations within public service and the rights of employees were differentiated according to whether they were exercising (Ktv.), or subject to (Kjt.) state power. *Table 2.2.*

**Table 2.2: Industrial relations in the public sector**

Institutions	Labour relation	Public servants (Kjt.)	Civil servants (Ktv.)
Trade union	yes	yes	yes
Workplace collective agreement	yes	yes	no
Sectoral consultative forum	yes	yes	divided
Sectoral collective agreement	yes	yes*	no
Participation in macro-level consultation	yes	yes	yes
Partner in macro-level agreement	possible	possible	possible
Right to strike	yes	yes	special
Participation	yes	yes	no

\* It has been legally possible since the amendment of Kjt. in 2004.

It is a general tendency that the more the principle of free agreement prevails, legislation guarantees more complex and effective industrial relations institutions which serve the protection of employees based upon collective rights. In the case of civil servants the protection does not come about through industrial relations based on collective rights but with the help of other guarantee-rules relating to employment, wages and other benefits.

The formation of the social dialogue system from the end of the 80's can be traced back to the economic transformation linked to the political regime change and the creation of a market economy based on private property. The first, separate consultative institution of public service was the Interest Reconciliation Council of Budgetary Institutions (KIMÉT) established in No-

59 I.e. the Act on the status of professionals of the police and assimilated agencies and the Act on the status of professional soldiers.

60 The Parliament has passed 10 acts since the "regime change" related to the status of different groups of public service. We here deal only with public and civil servants.



vember 1989 which operated until October 1990<sup>61</sup> and was replaced by the Reconciliation Committee of Budgetary Institutions (KIÉB) operating in the framework of the Interest Reconciliation Council (ÉT). The operation of ÉT helped the trade unions of budgetary areas to protect employee interests in the whole sector. The Committee became autonomous after the amendment of the ÉT statutes in September 1991, and again from September 1992 when Kjt. entered into force operating until 2000 under the name of the Interest Reconciliation Council of Budgetary Institutions (KIÉT) (KIÉT 1995).

KIÉT was the most important forum of the national level interest reconciliation of public servants. Questions specifically concerning public servants or rather the whole public sector were handled by KIÉT, while more general questions were arranged by ÉT (Berki 1997).

Besides employee and governmental representatives the forum included the associations of local governments and representatives of the institutions as employers; however, this latter side did not have the right to vote.<sup>62</sup> During its seven years of operation KIÉT concentrated on the questions concerning public servants, and rarely dealt with issues related to the labour relations of civil servants and employees of “professional” status. One third of the items on the agenda of plenary sessions dealt with salaries and the system of classification in which fields KIÉT concluded 12 agreements.<sup>63</sup>

As a result of the breaking-up of public sector employment status, the Forum for the Conciliation of Interest of Public Servants (KÉF 1993) was established in July 1993. KÉF was a four-sided organisation as well, its stable governmental, trade union and local government groups were fully authorised to conduct negotiation. The fourth group composed of the Hungarian Chamber of Public Administration (later the Body of Public Administration) and the National Union of Chief Municipal Officers, had only consultative rights. KÉF was empowered with the right of consultation, opinion and recommendation, while its decision making power was limited to internal procedural matters.

Besides these two national fora every ministry operated fora or lower level departmental fora where employer and employee representatives and – in some cases – NGO organisations worked. Two basic types of forum were formed at the ministry level:<sup>64</sup>

- The bipartite interest reconciliation council in which trade unions had discussions and consultations with the leaders of the ministry. These forums endeavoured to make agreements mainly in connection with salaries and working conditions (for instance the Council for Reconciliation of Interest of Home Affairs (BÉT) and the Council for Reconciliation of Interest of the Hungarian Army (HOVÉT));

- The multilateral interest reconciliation forum including NGOs which discussed, in addition to questions concerning working conditions, profes-

61 The Governmental decree No.: 3240/1990 on 12 August 1992 established the Interest Reconciliation Council which accepted the procedures regulating its operation on 31 August 1990 and the statutes in September 1990.

62 The presence of these organisations can be regarded as the organisation of institutional employers (for instance, The Hungarian Rectors Conference, the Hungarian College Directors' Conference) in KIÉT which, however, did not cover budgetary institutions and during the transformation of the system they got out of high level interest reconciliation.

63 Sessions are registered by the ministerial department operating the KIÉT secretariat (it is the wage policy department of FMM at the moment).

64 For more details see Ladó-Tóth (1996).

sional questions as well (for instance the Council for the Reconciliation of Interests in Public Education or the Social Council).

There was no hierarchy among these fora, nevertheless, there were competency debates when questions concerning certain groups of employees were on the agenda. Notwithstanding the lack of hierarchy, professional problems which could not be solved sooner or later reached the KIÉT level.<sup>65</sup>

The operation of the system was characterised by the endeavour to agree. The agreements were rather *gentlemen's agreements* than collective agreements with no binding power or legal enforcement possibilities. The agreements – initiated by the trade union or the governmental side – dealt with the increase of salaries and with classification systems. Trade unions strove for the situation whereby the agreements should include the necessary legislative provision changes in order that enforcement be guaranteed. Hence the basic significance of the agreements was different for each side. Trade unions concentrated on reaching agreement on salary increases, local governments on covering salary increases from targeted government resources and the government on the guarantee of peaceful labour relations.

The government reorganised the system of interest reconciliation and created new fora starting in 1999. In the system of social dialogue – operated between 1999–2002 – the role of consultation was emphasized because the government took decision making completely under its own authority, while social partners demanded tools to enforce their own interests. KIÉT was replaced by the National Labour Council of Public Servants (KOMT) in October 2001, with the objectives of consultation, mutual information, interest reconciliation, recommendations, and agreements. The members of KOMT are the assigned representatives of the government (the former Ministry of Employment and Labour, now the Ministry of Economy the Ministry of Finance, the Prime Minister's Office, the Ministry of Interior and the delegates of the sectoral ministries concerned), national trade union associations representing public servants, covering several sectoral and professional trade unions, trade union confederations (altogether 11 organisations) and the negotiating group of national interest representation organisations of the local governments. The KOMT and its constituting parties have the right of information, opinion, recommendation and decision.

As a result of the amendment of Ktv. of 2001 two fora replaced the Forum for the Conciliation of Interests of Civil Servants i.e. the Interest Reconciliation Council of Civil Servants (KÉT) and the National Interest Reconciliation Council of Civil Servants of Local Governments (OÖKÉT) which separated the consultations at the central and the local government level. The operation of this system was laden by inconsistency. Without discussions covering the entire public sector, chances to conclude agreements were reduced. Accordingly, the system enabled the government to take autonomous deci-

<sup>65</sup> *Ladó-Tóth* (1996) includes the thorough analysis of the system.

sions after simply listening social partner opinions. Negotiations set outside the consultation system in the form of direct negotiations with the SZEF, however, could not have been avoided. Nevertheless, consultation proved to be more efficient at sectoral levels than it was the case earlier, albeit it was only suitable for solving problems of secondary importance.

The objective of the new government in 2002 was the establishment of a system of uniform public sector employment status and the creation of a consultation forum dealing with questions covering the entire public sector and competent to consult with the government regarding questions of standardised employment relations. In accordance with these objectives the National Council for the Reconciliation of Interests in Public Services (OKÉT) was established which is nowadays the highest forum for interest reconciliation in the whole public sector. OKÉT is a tripartite forum in which the representatives of government, the biggest trade union associations and local governments participate. The purpose of OKÉT is to create an institutional framework to conclude agreements covering all public sector employees.

The operation of these fora of interest reconciliation was/is characterised by the predominance of consultation. The substance of it is that the government asks the opinion of its partners in questions which concern the whole or a part of the public sector. However, the nature, intensity and contents of consultation always depended on the political-ideological disposition of the government in power and the state of the actual budget. Consequently, the number of sessions, the contents of the agenda and the number of agreements were different from period to period during the one and a half decade under examination.

**Table 2.3: The system of macro level and sectoral consultative fora in the public sector**

Name	Parties	Employment status
National Council for the Reconciliation of Interests in Public Services (OKÉT)	Government, national, trade union confederations and trade union federations, local government associations	public servants
Interest Reconciliation Council of Civil Servants (KÉT)	Government, national, trade union confederations and trade union federations, national association of chief municipal officers, association of chief urban officers, national body of public administration	civil servants
National Interest Reconciliation Council of Civil Servants of Local Governments (OÖKÉT)	Government, national, trade union confederations and trade union federations, national association of chief municipal officers, association of chief urban officers, national body of public administration	civil servants
National Labour Committee of Civil Servants (KOMT)	Government, national, trade union confederations and trade union federations, local government associations	civil servants
Interdepartmental Reconciliation Forum of Military Organisations (RSZTÉF)	Government, national, trade unions	professional service

Notwithstanding, the yearly conclusion of wage agreements became the practice at KIÉT and OKÉT level. After 2002 following the 50 percent increase of public servant salaries, the 6 percent salary increase agreed upon was held off for one year and could be materialised only through repeated governmental intervention.

The forum system in public service became consistent by the end of 2002 so that questions referring to the entire public sector could be consulted in a standardised way and the fora in operation became suitable also for discussions of specific questions.

### *Collective agreements of public servants*

Rules of collective agreement are regulated by the Labour Code of 1992 (Mt.) and the Act on public servants (Kjt.). In accordance with the whole set of the (ten previously mentioned) acts only employees covered by Kjt. and Mt. can conclude workplace collective agreements. Higher level collective agreements concluded at sectoral and macro-level have been discussed above.

The amendments of the Mt. regarding collective agreements targeted the extension negotiations and agreements. The system changed again as a result of the Kjt. amendment of December 2004. There are two basic features of the transformation: 1. Until the end of 2008 a dual system will exist as concerns representativeness; on the one hand, representativeness based on the results of Public Servants' Councils' elections, on the other hand, it should be measured in terms of union membership; 2. The way is open to conclude sectoral collective agreements, consequently, the new 12/A § of Kjt. re-regulated the right of trade unions to conclude collective agreements based on, primarily, representativeness and, secondly, on membership. These rules are shown in *Table 2.4*.

The basic problems in concluding collective agreements are the division of employers' functions and the structure of finance. Consequently, it should be clarified during collective bargaining that questions to be laid down in the agreement can only be settled partially within the institution because as a result of the division of the employers' function the workplace director is not a competent negotiating partner. The practice that the director of the budgetary institution can not make a collective agreement individually but with the approval of the local government pushes the problems one level upwards and does not help at all to solve the problems of sectoral collective agreements.

Kjt. allows collective agreements with employer's interest representation organisations as well. There is no such employer's interest representation organisation in the public sector at present. However, some so-called multi-employer collective agreements have been concluded in the past few years under the scope of Kjt, with the application of the rules of Mt.

**Table 2.4: The relationship between the right to conclude collective agreements and representativeness**

Cases	Contracting party on trade union side	The terms of agreement conclusion	In what cases?
1.	One trade union, on the basis of membership	If there is one trade union at the employer and the number of members reaches 25 per cent of public servants	
2.	More trade unions, on the basis of membership	If there are more trade unions at the employer and the number of members reaches 25 per cent of public servants	Only if there is mutual consent between trade unions
3.	More trade unions, on the basis of representativeness	If there are more trade unions at the employer and the number of members of representative ones reaches 25 per cent of public servants	In the event where if on the basis of 2. due to the lack of mutual consent the collective agreement can not be concluded
4.	One representative trade union, on the basis of membership	However, there are more trade unions at the employer but only one concludes a collective agreement provided the trade union in question is representative and the number of members reaches 50 per cent of public servants	In that event if on the basis of 3. due to the lack of mutual consent of the representative trade unions the collective agreement can not be concluded
5.	One or more trade unions, on the basis of consent	Collective agreement concluded by one or more trade unions provided the majority of public servants agrees to it (at least half of the public servants should participate in the vote, and half of the voters vote for the collective agreement)	In that event if on the basis of 1. and 4. the conclusion of collective agreement is not possible

Table 2.5. shows the practice of collective agreements made under the scope of Kjt. *Nota bene* less than half of the institutions employing public servants engage more than thirty people where there is possibly a trade union in operation able to conclude a collective agreement.

**Table 2.5: Number of collective agreements in force in budgetary institutions, 1998–2004**

Year	Number of collective agreements	Number of employees covered, thousand	Coverage, per cent
<b>“One” employer” collective agreements</b>			
1998	2015	257,0	42
1999	2084	274,0	44
2000	2079	272,0	45
2001	2077	268,0	44
2002	2019	251,8	41
2003	2026	251,3	37
2004	2020	250,5	37
<b>“Multi-employer” collective agreements</b>			
1998	7	2,5	32
1999	11	2,2	36
2000	12	2,4	39
2001	10	2,1	34
2002	9	2,1	34
2003	9	2,1	30
2004	10	2,1	30

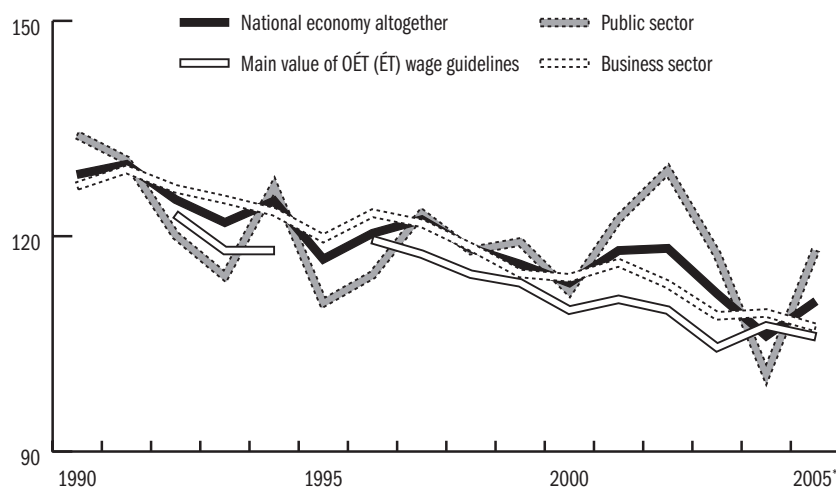
Source: FMM registration database covering all public servants.

According to the registration database of collective agreements there are collective agreements in 15–20 percent of institutions employing public servants under the scope of which 40 percent of public servants work. The number of so-called multi-employer collective agreements is negligible. Since July 2001 (the amendment of Kjt) no separate data have been collected concerning the concluded collective agreements which have been rearranged from the scope of Kjt to Mt.

Regardless of the high number of collective agreements salaries in the public sector are primarily determined by the macro-level agreements concluded in OÉT, KIÉT and later OKÉT and not by appropriate collective agreements. The narrow budgetary resources are responsible for this situation. In the case of public servants salaries can not be lower than prescribed in the Act, however, as a result of almost continuous scarce resources, the average basic salary never differs substantially from this lower limit. As for the civil servants their rate of pay is determined according to the respective Act.

Salaries have been fluctuating over the last decade in the public sector; in years of successful agreements salary increases followed at least the rate of inflation or rather the rate of wage rises in the business sector following macro-level wage guidelines agreed upon in ÉT (in OÉT) (Chart 2.1.)

**Figure 2.1: The increase of gross average wages 1990–2005**  
(previous year = 100 per cent)



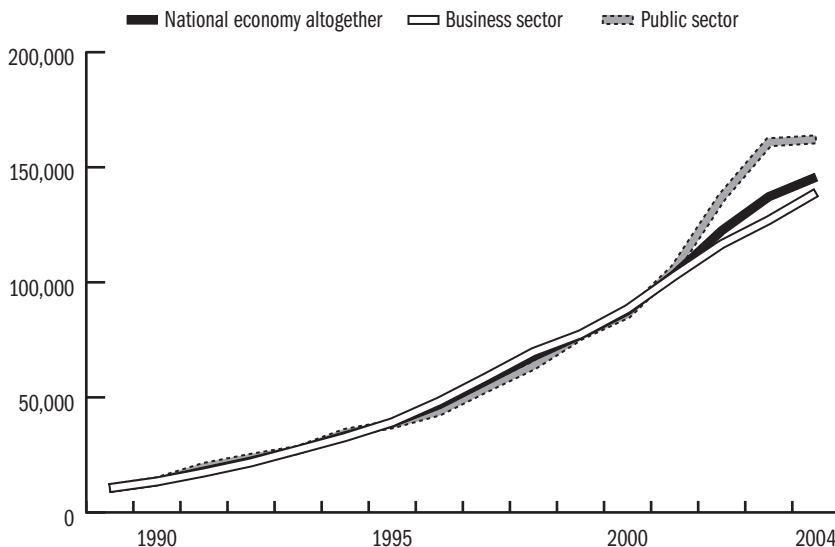
\* First 6 months

Source: KSH, FMM.

In 2002 the government increased public servants' salary rates by 50 per cent in order to close the gap compared to wages in the business sector. The central government enforced the increase despite the protests of local governments only partially compensated for the additional expenditure. As a result of the

50 per cent increase the gross nominal average wage in the public sector exceeded the average wage level of the business sector in 2002. Chart 2.2)

Figure 2.2: Gross average wage HUF/employee/month



Remark: Data include between 1989–1993 enterprises with more than 20 employees, between 1994–1998 with more than 10 employees, from 1999 with more than 4 employees, furthermore, regardless of the number of employees in budgetary and social security institutions and non-profit organisations.

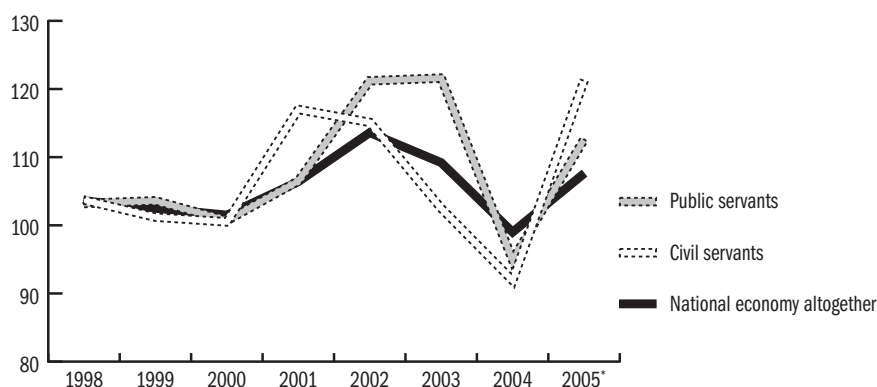
Source: KSH.

Nevertheless, structural differences call for a refined comparison. According to the calculation made by FMM yearly, based on the database of the Employment Office, salaries at comparable classification levels fell behind the wages of the business sector; again, in 2004 the lag was 17 per cent on average, which means a 20 percent betterment taking the 35 per cent “nadir” in 1998 into consideration. The lag in the case of civil servants is 1.8 per cent, in the case of public servants is 21.5 per cent and the wage advantage of judges and prosecutors is 36.3 per cent against comparably classified employees in the business sector (*FMM* 2005).

Inside the public sector civil servants’ wages increased faster on average since the “regime change”. Nonetheless, KSH has been collecting these data separately only since 1998, therefore, the tendency cannot be demonstrated using its data. Because of the salient wage increase of public servants in 2002 and 2003, the net real wage per capita of public servants increased faster in these two years than that of civil servants and than the average of the national economy (*Chart 2.3*)



Figure 2.3: The increase of net average real wages (previous year = 100)



Source: KSH.

### *Interest representation at workplace level*

It is difficult to demonstrate the presence of employers' interest representations in areas which belong to the public sector (administration, public services and law enforcement), conclusions can only be drawn from the results of public servant council elections in 2004 and the number of collective agreements and collective disputes.

As discussed above, the election of public servant councils will play a role as representativeness criteria until 2008. The following chart (*Chart 2.6*) contains the aggregate results of public servant council elections in 2004.

**Table 2.6: Distribution of votes in the 2004 election of public servant councils**

Name of confederation	Number of votes	Distribution of votes
Forum for the Co-operation of Trade Unions (SZEF)	106,582	51.78
Confederation of Unions of Intellectuals(ÉSZT) – National Trade and Waterworks Employees' Union(VIOSZ)	13,095	6.36
Liga Trade Unions	5,800	2.82
National Association of Hungarian Trade Unions (MSZOSZ)	5,720	2.78
Trade Union Association of Military and Police Employees (FRDÉSZ)	1,492	0.72
National Federation of Workers' Councils (MOSZ)	494	0.24
Democratic League of Independent Trade Unions	5	0.00
Non trade union candidates	68,957	33.50
Small trade unions	3,678	1.79
Altogether	205,823	100.00

Source: Summary of public servant council elections of 2004, 13 April, 2005. FMM.

The fact that 66.5 per cent were trade union candidates reflects high trade union density in the public sector. However, one should consider that according to the rules the right to conclude a collective agreement and participation in

the interest reconciliation are linked to election results, which explains why trade union activity is concentrated at election times. The workplace activity of trade unions in places where civil servants work – due to the lack of the right to conclude collective agreements – is less intensive. The measurement of representativeness in police and defence forces is based on membership figures which reflect a continuous increase since the “regime change”<sup>66</sup> stabilising the participation and activity of these organisations at consultative fora.

According to a representative 2004 KSH survey 52 per cent of employees working in the administration, defence and social security segment of the public sector affirmed the workplace presence of unions, this percentage was 61 in the case of employees working in education and 57 per cent in public health and social care.<sup>67</sup> Positive answers to the question of whether the employees in question were members of a trade union were 26.1 per cent, 29.4 per cent and 26.3 per cent respectively. Employees who had workplace collective agreements were asked whether the agreement had any effect on wages and working conditions. 57.1%, 57.3 % and 59.5% thought that the agreement influenced their wages; furthermore, 58.2%, 58.0% and 61.1 % of them assumed that working conditions were influenced by the collective agreement (*KSH* 2005, pp. 38, 43 and 54).<sup>68</sup> We can conclude that the level of organisation is not too high (however, neither can it be considered too low by international comparison) but if there is a collective agreement then its regulating power is considerable. Furthermore, the impact of a collective agreement on working conditions is greater than on wages and salaries.

### *Industrial disputes and their settlement*

The Labour Code of 1992 re-regulated industrial disputes and their settlement. Consequently, Hungarian labour law is only familiar with individual and collective labour disputes, regulation with regards to individual disputes is essentially the same in the public and the business sector, however there are remarkable differences in the case of collective disputes (Berki–Nacsa 2000). There is further differentiation in the segments of the public sector tied to the regulation of collective negotiations concerning interest disputes: the law cannot regulate the settlement of interest disputes where no collective negotiation is possible. In these questions the general regulations are in force, however, their application is sometimes difficult.

Service provisions for professionals in the police, military and assimilated segments apply three legal institutes for the settlement of legal disputes: request, complaint and service legal dispute<sup>69</sup> whilst in the other segments of the public sector basically a juridical proceeding solves legal disputes. An agreement made at the Forum for the Conciliation of Interest of Civil Servants (*KÉF*) is guiding the settlement of interest disputes in their case (*Megállapodás a kormány... 1994*). With the conclusion of this agreement the parties

66 Trade unions were excluded from this segment before the “regime change”, consequently, their presence is new for military and law enforcement employers. The increase in membership reflects the “service union” model orientation of these unions.

67 These are the sectors where the majority of public servants work.

68 Proportions set against the total number of employees, however, are smaller, i.e. half, one-third of the above listed since there were collective agreements – in the demonstrated public servant sectors – at 32.5, 43.5 and 40.1 per cent of employees questioned. (See László Neumann’s *Chart 3.1* in chapter 3.1).

69 For more details see the Act No.: XCV./2001 (Hjt) on the legal status of professional and contracted soldiers of Hungarian Defence Forces and Act No.: XLIII/1996 (Hszt.) on the service status of professional soldiers of armed organisations. The most important improvement in this area compared to the pre “regime change” era is that a service legal dispute is handled as a regular labour related legal dispute and not as a law enforcement case. Ktv. and acts mentioned here do not deal with collective disputes.

concerned met the requirements of the so-called Strike Act (Sztv) (1989/VII.). and mutually accept that disputes have to be settled by negotiation, furthermore, it regulates the use of the right to strike (*Berki* 2000).

Public servant interest disputes do not only discuss questions falling into the competency of one employer but sectoral or national ones as well. Sztv. prescribes: “If the employer concerned in a strike claim cannot be identified then the government shall appoint in 5 days its representative who participates in the reconciliation procedure. In the case of a strike concerning more than one employer, employers are obliged to appoint their representative upon request.” Consequently, if the employer is not a (legal) person and, furthermore, there is no legal compulsion for employers to participate in the collective dispute then such a committee is formed which functions as the employer in strike negotiations.

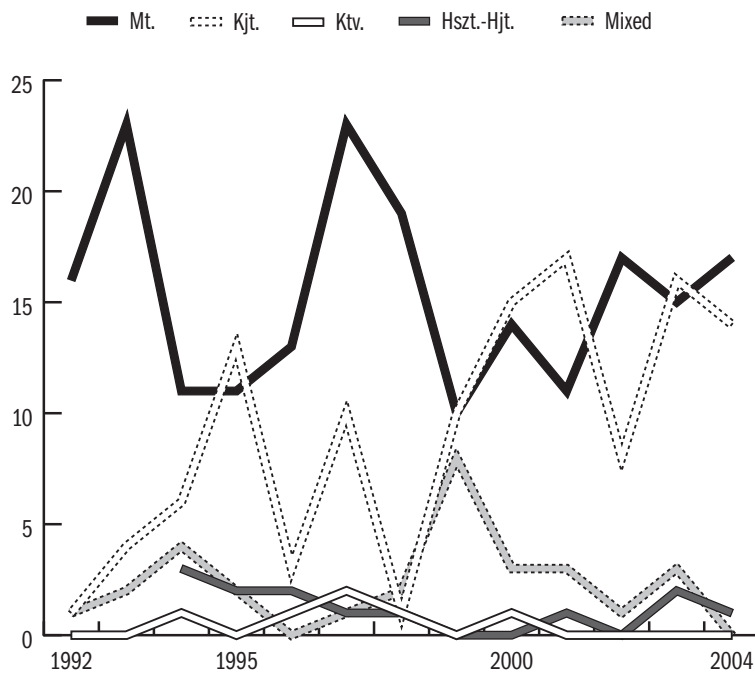
Sztv. 4. § (2) contains the following: “Employees of an employer assuming basic public services – especially public transportation, telecommunication, electricity, water, gas and other public utilities – can exercise the right to strike providing that it shall not limit sufficient service. The degree and condition of sufficient service should be agreed during the negotiation prior to strike”. Parties – if possible – should agree upon the degree of sufficient service, however a strike is legal without this agreement. Sztv 3. § (2) and (3) forbids a strike at “judiciary organs, armed forces, armed bodies, civil national security services.” This creates a limitation by which the law deprived some groups of employees of the use of strike rights regardless of their employment status in order that the basic functions of state power be sustained.

In the case of public service disputes – in accordance with the rules – mediation (without any limitations, according to the will of the parties concerned) and arbitration (in cases prescribed by the law) are also possible. Registered data<sup>70</sup> show a tendency for the increase of public servants’ actions whilst the number of actions of civil servants stagnate at a low level. Another feature of organised actions (Charts 2.5 and 2.6) of public servants is that there are only a few actions leading to strikes – demonstrations and petitions are more typical. This is, primarily, because of the difficulty of organising a legal strike and secondly because a large population of service users is affected.

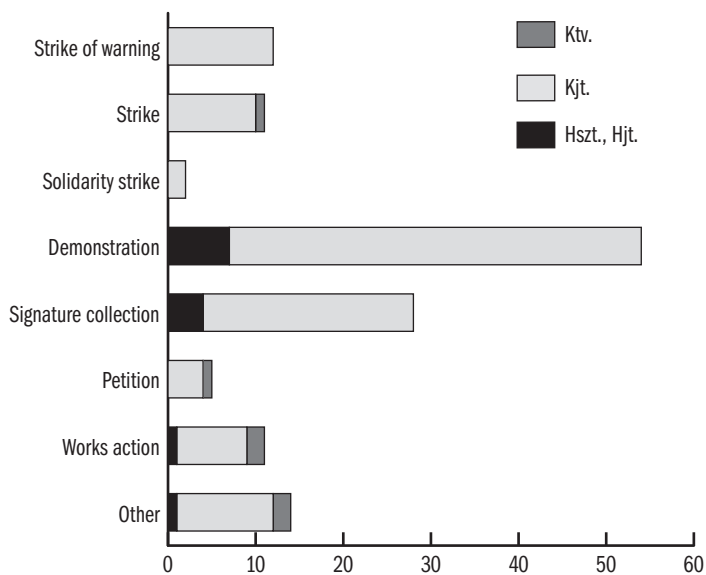
Nonetheless, actions “softer” than a strike bring about lower effectiveness in the settlement of disputes, and the demands of those initiating the action are much less fulfilled.

<sup>70</sup> The source of the data is the research of the author made between 1998–2000 with the support of OTKA and OFA. The research has not yet been concluded, data are based on the continuous monitoring of the national press. The data processing of actions after 1999 follows the same structure as earlier.

**Figure 2.4: The number of strikes and other actions in different segments of the public sector (1989–2004)**



**Figure 2.5: Type of action in different segments of the public sector (1989–2004)**



\*

The industrial relations of the public sector can, on the whole, be considered well-organised. Institutions of consultation and negotiation are well developed. An important feature is the large number of agreements substituting upper-level collective agreements. It is also important for the development of industrial relations that the representativeness of trade unions is measured by membership. Notwithstanding the fact that there are relatively a lot of local collective agreements, salaries are primarily determined by higher-level agreements concluded in OÉT, KIÉT and OKÉT. The reason for this is that it is even more difficult to conclude sectoral collective agreements here than in the business sector. The contradiction between the regulating power and number of collective agreements can be solved in the case of sectoral collective agreements, furthermore, sectoral collective agreements can also solve the problem that salaries of comparable employees are different depending on the local budgetary resources of local governments. Employer competency problems limit the formation of the system of sectoral dialogue committees and have a negative impact on interest reconciliation at sectoral level and also, on the settlement of collective disputes.

### 3. COLLECTIVE BARGAINING IN HUNGARY

#### 3.1 Collective Agreements – Still Decentralised, with Shrinking Coverage

LÁSZLÓ NEUMANN

In developed Western market economies, traditionally the institutionalised way for employers and employees to agree on wages, working hours, terms and conditions of employment has been collective bargaining between trade unions and employer(s). In Hungary collective agreements have been concluded at almost all workplaces since 1968, but under state socialism it was much more or less an implementation manual of the Labour Code, tailored to local conditions. As a matter of fact, independent actors missing, collective bargaining did not really take place. Although after the regime change unionisation shrank and the share of employees covered by collective agreements dramatically decreased, the Labour Code of 1992 assumed collective agreements to regulate the employer – employee relations as well as the framework of employment terms and conditions. In contrast to continental Western European countries, where the main scene of collective bargaining has traditionally been the sectoral level, in Hungary, similarly to Anglo-Saxon and to the majority of post-socialist countries, agreements are typically concluded at the company level (*Ladó–Tóth* 1996; *Tóth* 1997b; *Ladó* 2002; *Carley* 2004). This difference is conspicuous even if historical Western European structures sometimes appear obsolete in the light of the recent state of affairs. Over the past decade all researchers have pointed out the “decentralisation” of collective bargaining (i.e. company or plant agreements disregard sectoral trade union achievements) and the “individualisation” of wage bargaining, meaning that informal/individual bargaining is spreading next to, or to the detriment of, collective agreements (*Bispinck* 1998). There are widely accepted powerful arguments in favour of decentralisation too: only agreements made at company or even plant level can adequately respond to the current financial situation, technology and work organisation of the given firm as well as the local labour market relations and the special needs of employees.

Using the most recent statistical data available, this chapter will discuss collective bargaining in Hungary today: the scope of collective agreements,

the various levels of institutionalised bargaining, issues regulated in collective agreements. The legal and institutional background<sup>71</sup> of bargaining will only be briefly touched upon but will serve as a methodological background, a kind of source criticism to interpret the Tables in the Statistical Appendix.

### *Penetration of collective agreements*

*Methodological introduction.* Basically, there are two sources of information about the coverage of collective bargaining.

1. In several EU member countries, collective agreements must be registered with some state organisation. The primary purpose of registration is to provide an administrative backup for the government to extend collective agreements (i.e. make them mandatory for all employers in the sector). As registration is the tool of state control and intervention, not surprisingly in some countries agreements enter into force only when registered. Statistics based on mandatory registration involve fairly accurate data.

In Hungary, a National Statistical Data Collection Program was launched in 1992, which included a compulsory collection of data about the so called annual wage agreements, i.e. the collective agreements that fix, at one or several employers, the annual wage increase, the wage minimum at the company and the lowest wages in each of the various categories. Based on the authorisation (par. 38) of the Labour Code, the Minister of Labour extended the content of this data collection and ordered the compulsory registration of collective agreements (decree 19/1997. [XII. 18.] of the Ministry of Labour). The decree confirms that the fact of registration does not influence the effect of the agreement. As there is no sanctioning of non-adherence, employers and employer organisations often fail to report the agreements newly concluded, amended, and most importantly terminated. Data are collected by the Ministry of Employment and Labour, and as records mostly include *stock* data, many of the registered agreements are terminated, or had been concluded at companies that have since gone out of business. The problem with these records is that an earlier recorded agreement is regarded as existing as long as a new sheet is submitted reporting the amendment or termination.<sup>72</sup> In this way, statistics theoretically may distort both “downwards” and “upwards” on the one hand because of lax reporting and on the other hand because of failing to report termination – the latter probably causing much larger distortions. While decree 2/2005 (I. 28.) of the Ministry of Employment and Labour re-regulating the registration system cancelled the above mentioned rule, the practice has not changed. In terms of its content, registration in the Hungarian legal system seems to fulfil the role of institutional statistics rather than an authority function. Up to 2003 the processing and evaluation of data were made available by the Ministry of Employment and Labour at the National Reconciliation Council, and since then on its homepage.

71 See the review of collective bargaining from the perspective of labour law in *Nacsa–Neumann* (2001).

72 The size of error due to the “spill-over” of earlier registrations is not known. An indication of its size, however, is that out of the 1270 companies with a local collective agreement in the register in summer 2005, 370 could not be found among the respondents of the last individual wage survey made by the National Employment Office. The majority of “surplus” companies have meanwhile ceased to exist or have gone out of business and only their legal entities are kept, and the minority were firms that have recently undergone organisational change but have failed to update their registration data base.



2. *Sampling methods* are commonly used internationally, especially in Anglo-Saxon countries, where the system of collective agreements does not include the possibility of extension; therefore registration is not a statutory requirement. Surveys can be both company surveys (in the United States surveys on wages and labour costs include information on the collective agreement) and population sampling surveys. An illustration of the latter is the practice in the United Kingdom, where the labour force survey has included questions annually on union membership since 1989, on the workplace presence of trade unions since autumn 1993 and on collective agreement since 1996. Population surveys on the institutions of industrial relations, however, always involve, implicitly or explicitly, evaluation, even by asking as little as whether the respondent knows about such an institution; but many of the questions are about the impact of collective bargaining on wages and conditions of work. Information from population surveys is only limitedly comparable with registration information. Sampling surveys typically distort downwards partly because respondents can be family members of the originally designated interviewee, who know less about the workplace. Moreover, employees of smaller plants may not know themselves whether the collective agreement signed by the trade union working at the headquarters of the company/institution cover them. Nonetheless, this kind of information serves as “official” statistics in the UK, where bargaining typically takes place at the company or plant level.

In Hungary the company sheet (“the cover page”) of the individual wage survey also included questions on the collective agreement or the wage agreement in certain years. The National Labour Centre and the National Employment Office, however, which have been in charge of carrying out the survey, have made processed data available only occasionally. Of population surveys, it was a supplement of HCSO’s LFS in the first quarter of 2001 which first included a set of questions on collective agreements. This survey was repeated in 2004 (HCSO 2001, 2005). Adopting the methodology of the British *Labour Force Survey*, the Hungarian labour force survey asks explicitly evaluative questions: “Does the agreement or collective agreement between the trade union and the employer directly impact your wage/salary?” and “Does the agreement or collective agreement between the trade union and the employer directly impact your working time, work conditions and other terms and conditions of employment?” Not surprisingly, the coverage rate calculated on the basis of this information is much smaller than the one calculated on the basis of the register of collective agreements.

The penetration of industrial relations institutions (including collective agreements) is usually given as the relative index of the rate of coverage. It is, however, a recurring methodological problem to decide what should be the basis of comparison, i.e. what population should be the denominator. The first

recommendation of ILO in 1926 required to compile statistics on all who are employed in the given profession, area or industry. More recent ILO statistics, however, consider only the formally employed work force (“employees”) and leave out the “informal sector”, where – says the ILO definition (ILO, 1926, 1997) – small enterprises and the majority of agricultural employment belong to. In these areas, the small size of the enterprises or the characteristics of employer – employee relations within the enterprise (for instance, family business and self-employment), trade union activities and collective bargaining do not make much sense. This approach is typical for third world countries, where information from the “informal sector” is not available. At the same time, research and statistical methods in the EU strictly use the category of employee for collective agreements, which as a result of extensions apply to employees of small enterprises, too. Similarly, in Hungary there is no threshold limit of the number of employees in terms of applicability of provisions of either company collective agreements or of higher level agreements.

Some statisticians and researchers differentiate between *unadjusted* and *adjusted* indices. An illustration for the latter is Hungary where in certain areas (civil servants and armed forces) collective bargaining is prohibited by law therefore these employees are reasonably left out from coverage calculations. In Hungary, calculating the number of employees is a problem as the estimate of LFS by HCSO on the number of employees is available only in aggregates but a sub-branch breakdown is often needed for the purposes of public administration. Thus, the Hungarian institutional collective agreement statistics prefer to use the data of HCSO’s statistics on institutional wages and number of employees. As providing information is required only from employers employing 5 or more (in earlier years the threshold was ten and twenty), leaving out employees of firms employing 1 to 4 and the unemployed biases coverage data “upwards” (Neumann 2001b).

*Estimates based on sample.* First, coverage will be presented by gender and by sectors on the basis of answers to questions of the HCSO survey in 2004 not requesting direct evaluation.<sup>73</sup> On the whole, there were valid collective agreements at the workplaces of 25 percent of respondents. According to the same survey (see this author’s writing in 1.2 of *In Focus*), one third of workplaces were unionised but a smaller share had collective agreements. The ratio of coverage by collective agreement to unionisation was even smaller in important sectors such as electricity, gas, steam; education; health and social work as well as public administration (note, however, that in this last sector the law prohibits collective bargaining.) For the sake of comparability with the data of the register, in Table 3.1., estimated sectoral data are presented separately for companies employing over four persons.

73 “Is there a collective agreement in effect at your workplace that was concluded by a trade union?”

**Table 3.1: Coverage of collective agreements on the basis of HCSO LFS, 2004, per cent**

Sector	Men	Women	Together	Only at employers employing more than four
Agriculture	11.9	16.6	13.0	15.2
Mining and quarrying	37.0	50.4	39.7	40.6
Manufacturing	24.9	22.3	23.8	24.6
Electricity, gas, steam	44.1	56.7	47.8	48.2
Construction	4.9	12.2	5.6	6.3
Trade and repair	7.8	9.6	8.8	10.7
Hotels and restaurants	8.0	7.8	7.9	9.2
Transport and storage	44.9	52.8	47.2	49.6
Financial intermediation	25.2	23.6	24.1	25.0
Real estate, renting	11.9	11.4	11.7	12.7
Public administration	31.5	33.0	32.3	33.0
Education	44.8	43.1	43.5	43.6
Health and social work	39.2	40.3	40.1	41.7
Other services	19.2	20.3	19.8	20.6
Total	23.0	27.5	25.2	27.0

Source: HCSO.

The two questions about the impact of the collective agreement quoted in the introductory part were asked of respondents in the HCSO LFS whose workplace had a collective agreement (or in the 2001 survey the workplace had a trade union or a works council authorised to bargain, as at that time works councils could conclude “quasi collective agreements”). While 10 to 15 per cent of respondents answered “I don’t know”, 55 to 60 percent said “yes”. But the share of those answering *yes* – i.e. who thought that the collective bargaining has an impact on wages and conditions of work – made up only 20 or 21 percent of all employees in the survey in 2001 and 15 or 16 percent in 2004. The six percentage point decline, however, is not a sign of the lessening impact of collective agreements since the two surveys used different interviewing methods. What is obvious, however, is the similarity of answers to the two questions in both years: the majority of respondents failed to differentiate between the impact of the collective agreement on wages and on conditions of work. Differences between sectors are significant but essentially identical with those found in terms of workplaces having a collective agreement and a trade union. Similarly, the breakdown by respondents’ demographic (gender, age) and employment (manual, non-manual, occupational group) variables is essentially the same as by the presence of interest representation organisations and membership.

**Table 3.2: Opinions on the impact of collective agreements in 2001 and 2004**  
(the percentage share of “yes” answers)

Sector	The collective agreement has an impact on			
	wages	conditions of work	wages	conditions of work
	2001		2004	
Agriculture	6.3	6.5	7.8	7.6
Mining and quarrying	27.5	30.6	19.6	22.2
Manufacturing	18.8	19.2	13.2	13.1
Electricity, gas, steam	31.1	31.9	30.2	32.1
Construction	4.0	4.7	2.5	2.9
Trade and repair	7.7	7.9	4.9	4.8
Hotels and restaurants	5.6	5.4	3.9	3.4
Transport and storage	42.3	43.2	31.2	30.5
Financial intermediation	15.7	16.3	14.2	14.2
Real estate, renting	9.1	9.5	5.9	5.5
Public administration	25.1	25.7	18.0	18.4
Education	37.0	37.3	24.3	24.6
Health and social work	35.1	35.9	23.5	24.1
Other services	12.0	12.7	10.7	10.8
Total	20.2	20.7	14.4	14.5

Source: HCSO.

### *The usefulness of registration – collective bargaining at the various levels*

In contrast to sampling estimates, a registry can be expected to provide accurate and regular information on the observed phenomenon. Unfortunately, the registration of collective agreements in Hungary has neither been accurate nor regular yet; therefore coverage data can be used only with the above discussed reservations. The share of employees covered by some kind of collective agreement gradually dropped from 45.2 percent in 1998<sup>74</sup> to 39.5 percent in 2004. Theoretically, data published by the Ministry of Employment and Labour are adjusted: the data are controlled for overlaps due to the various levels of agreements covering the same employees, and areas where the law does not permit collective agreements were left out. The effect of multi-employer collective agreements (the number of companies covered), however, cannot be assessed because of imperfect adjusting of data and failure to register.

Coverage can be slightly increased through the extension of sectoral agreements. While this institution was made available by the Labour Code in 1992, it has only been applied in three sectors (Neumann 1998). According to the calculations of the Ministry of Employment and Labour for year 2004, which were based on HCSO data on the number of employees reported by employers, the number of covered employees grew by 56 thousand, or by 2.3 percent, owing to the extensions. The real advantage of statistics based on the register is that the agreements signed at various levels and by different types of parties

<sup>74</sup> See: Report to the Wage and Collective Agreements Committee of the National Labour Council. Ministry of Economy and Ministry of Social and Family Affairs. Budapest, May 2000, p. 9.

(company or sectoral trade unions and company management and employer organisations) can be separated. Based on the categorisation commonly used in the Hungarian labour law, there are two kinds of agreements: the first is the single or multi employer agreements and the other is the agreements at employers subject to the Labour Code and to the law on the legal status of public employees. The number of registered agreements and the number of employees covered by these agreements by sectors are published in the annual reports of the Ministry. (See aggregate data calculated from these figures in *Tables 1 through 4* in the Statistical Appendix.) According to information provided by employers, the number of single employer agreements is annually around 1300 in the business sector (i.e. in private and other for-profit enterprises) and around 2000 in the public sector. In contrast, the number of multi-employer agreements has been around 70 to 80 in the competitive sphere in recent years while as few as around ten in public institutions. Overlaps are frequent as a workplace can be subject to several agreements; employers, however, are required to adhere only to the lowest level one, thus overlaps are not a problem. (In the spirit of the so called hierarchy of regulations, in Hungary the lower level agreement can be different from the higher level one only if it is favourable for the employee, similarly to the German “Günstigkeitsprinzip”.) The numbers of employees covered by the various agreements tend to be more or less the same as the abovementioned figures. According to the most recent data, for year 2004, single employer agreements cover 638 thousand employees and multi-employer ones cover 264 thousand in the competitive sphere. In the area of public employment, single institution agreements cover 250 thousand while the agreements shared by several institutions cover as few as 2072 public employees. These figures underpin the commonly shared conclusion of case studies that the Hungarian system of collective bargaining is decentralised and the company or institution level is dominant both in terms of the coverage and of the content of agreements.

In reality, however, collective agreements have more levels than that. It is clear from registration data that only part of the multi-employer agreements are concluded by employer organisations and trade unions. Currently as few as 17 such agreements are registered. (See itemised listing, including parties to the agreement, coverage data and dates of first signing and last reported amendment, in Table 11 of the Statistical Appendix.) As a matter of fact, not all of these are classical sectoral agreements with a national reach: one of the agreements (concluded between the county organisation of the National Association of Retail and Catering Entrepreneurs in county Jász-Nagykun-Szolnok and the Trade Union of Commercial Employees) actually intends to be nothing more than a sectoral agreement covering the county. Another agreement (which covers all enterprises belonging to the given employers’ organisation, and was signed by the Hungarian Industrial Association and

the Alliance of Autonomous Trade Unions) is not sectoral in its nature, and its coverage cannot be measured at all. The remaining 15 agreements covered only 192 thousand employees in 2004, amounting to 7.8 percent of all employees of enterprises employing 5 or more.

In the rest of the so called multi-employer collective agreements registered with the Ministry of Employment and Labour the signatories on behalf of employers were not interest representation organisations but several employers jointly (or one single business organisation representing all of them). In some cases, the agreement was never intended to cover the whole of a sector or sub-sector but to give the enterprises, usually related to each other through ownership, a common labour regulation. (This kind of agreement is typically signed by holding type groups of enterprises, successors of state owned mammoth companies “dismantled” in the early 1990s as well as by a small number of multinational companies with a few affiliates in Hungary.) While at the “holding level” trade unions have greater bargaining power – which can give negotiations sectoral importance – the content of these agreements is closer to the company level. Agreements in such groups of enterprises, thus, represent the third level of collective agreements, between the company and the sectoral level. A research in 2002 found only four multi-employer agreements which were not concluded by the sectoral employers’ organisation but still served to regulate the whole of the given sector or sub-sector (such as the clothing industry). In these cases the signatory on the employee side is the sectoral trade union, and the employers subject to the agreement are not related to one another through ownership. It is doubtful, though, whether in a less strict system of criteria these agreements can be regarded sectoral (*Nacsa–Neumann* 2001).

Statistical data tell little about how much of sectoral collective agreements can be enforced in practice. Case studies suggest that sectoral regulations usually set requirements (for instance the amounts in the wage tariff system, annual wage increase percentage) very low so that companies can easily meet them (*Tóth* 1997b). Case studies have also proved that quite contrary to the Western European practice, companies prefer to retain their autonomy to determine wages and conditions of work. One consequence is that the majority of employers’ organisations are not authorised to sign sectoral collective agreements on behalf of their members (See *Tóth* chapter 3.3 of *In Focus*). Furthermore, those agreements that are concluded do not become automatically mandatory for all companies because the members of the employers’ organisation use “opt-out” clauses concerning the most sensitive stipulations (e.g. wage tariffs) once they endorse the agreement negotiated by the organisation, which leaves sectoral collective agreements without much force, simply a collection of “good wishes” (*Neumann–Tóth* 2002b). Interestingly enough, in some sectors employers’ organisations and trade unions maintain good labour



relations and annually agree on recommendations on the increase of wages but – as if knowing what it is worth – do not regard it a collective agreement and do not register it with the Ministry of Employment and Labour. This happens for instance in the trade sector, where lately interest representation organisations have regularly signed “wage agreements” which practically repeat the national recommendation for wages and add some new aspects to be considered in the company level wage negotiation/wage determination (*Neumann 2002b*).

Collective bargaining or the wage determination system in Hungary has levels about which the register does not provide any information. First of all, such level is the national one: as widely known, bargaining over the statutory minimum wage and the recommended wage increase in the business sector takes place in the Interest Reconciliation Council (the highest level tripartite forum). The annual, or three-year agreement on the increase of salaries in of public and civil servants is achieved at their tripartite interest reconciliation forum (currently the National Public Service Interest Reconciliation Council) (see Berki, chapter 2.3 *In Focus*). While these are not collective agreements in the legal sense, functionally perfectly fulfil the role of collective agreement. Moreover, when the salaries of public servants were raised by 50 percent in 2002, first the guidelines of distributing the extra amount of wages were developed and approved by the Interest Reconciliation Council of Public Servants, and it was after this that the lower level tripartite fora at the sectoral ministries and institutional collective agreements adjusted the guidelines to meet local needs (*Neumann–Tóth 2002b*). Even though not via collective agreements in the legal sense, an important role is played by the negotiations of the trade unions and the employer (in this case the state) in wage determination in the whole of the public employee and civil servant areas.

At the same time, in Hungary collective bargaining at the workplace level remains very important. In large companies, with several plants, the collective agreement concluded between the management and company trade union in the headquarters and then registered is supplemented by so called local appendices responding to the specialities of the plant or of local activities. The number of appendices depends on company size, complexity of structure and the different labour markets of the various plants. (According to a survey, at companies employing over one thousand the average number of appendices attached to the agreement concluded in the company headquarters was 3.4, while 2.3 at companies employing 500 to 1000 (*Neumann 2001a*). Sub-company level agreements play a very important role in the decentralised Hungarian wage determination system: traditional informal (individual or group level) bargaining has been increasingly incorporated in the working of the company (See more on the topic by Tóth in chapter 3.3 and Bódis in chapter 4.2 *In Focus*).



Finally, the data base of the register can be used to examine the variables of companies having a collective agreement. The distribution of agreements by the size of the company underpins the conjecture that company collective bargaining is basically a business of large companies. According to an analysis, collective agreements were concluded in only 2.8 percent of legal entity enterprises and non-profit organisations which – according to the HCSO data base – employ at least 5 persons. In this group of companies, however, three quarters (!) of the firms employing over one thousand and two thirds of those employing 500 to 1000 had a local collective agreement. With the help of another data base, the connection between ownership structure and collective agreement can be examined too. Using the individual wage survey of the National Labour Methodological Centre, it is found that 68 percent of firms in domestic ownership employing over 300 has a collective agreement. In the same size-category, 84 percent of firms in minority foreign ownership have a collective agreement, while 66 percent of firms in majority foreign ownership and only 37 percent of companies in full foreign ownership do so. On the whole, among the relatively large companies, the share of firms without a collective agreement is greater than the average only in full foreign ownership firms. As evidenced by case studies, unionisation is relatively low in the very same group of firms (Neumann 2001a).

#### *Information in the register on the content of collective agreements*

Apart from the basic information on collective agreements and on their coverage, the Ministry tries to collect information on the content of the agreements in the register. As the content of the collective agreements, at least what regards the regulation of individual employment relations can deviate from the Labour Code (to use the legal terminology: part III of the Labour Code is *dispositive* while the rest of it is *cogent*), it is almost impossible to record the provisions of the agreements. A simple data sheet can obviously address only the most frequent regulatory areas. The registration sheet on the one hand asks information on areas that are traditionally included in collective agreements in the company practice (the annual increase of the base wage, wage tariffs, social provisions etc) and tries to standardize answers, for instance with the help of tariff categories developed for statistical purposes. On the other hand some of the questions are related to the sections of Part III of the Labour Code that permit deviation from the legal provisions in an itemised way. As a matter of fact, most collective agreements in Hungary adopt this logic rather than try to find innovative solutions to local industrial relations problems. Even if an agreement – in line with the EU employment guidelines – includes for instance a training policy promoting “life long learning”, or introduces new forms of work organisation, or rules to harmonise work and family needs, or a preferential employee share program, there is no separate

space in the sheet to enter this kind of information. Furthermore, the actual content of the usual Hungarian collective agreements can only be roughly conjectured from the information provided. A deeper analysis should go in the legal language of the agreement and the evaluation should not entirely rely on the potentially unilateral and biased interpretation of the employer submitting it for registration.<sup>75</sup>

*The decreasing importance of wage agreements.* As mentioned above, data on the so called wage agreements have been collected and processed since 1992. These agreements are at the core of collective bargaining, and were especially important in the years after dismantling the system of central wage control (1990–3), when apart from the macro level negotiations on wages and minimum wages, keeping track of collective agreements remained the state's only tool to control wage outflow in the competitive sphere. Nowadays, with overwhelming private ownership, the agreement between employers and trade unions has lost importance in this respect as employers in the business sector are hardly interested in paying wages much higher than productivity growth. Furthermore, it appears that in Hungary pressure by trade unions is not an important factor in setting wages – except in some parts of public utilities.<sup>76</sup>

While the term “wage agreement” is not used in the Labour Code, in practice the document on the annual wage increase and its implementation is called so. This document is a separate part of the collective agreement and has the same legal status. In contrast to the collective agreement, which is concluded for several years or for an indefinite period, wage agreements are made annually, normally in the months after the National Interest Reconciliation Council has agreed on the minimum wage and has made its recommendation on the wage increase. The practice of annual wage agreements started in the early or mid 1990s when the annual 20 to 30 percent inflation rate evidently had a decisive impact on incomes. While in the public sector and in the public utilities part of the business sector (typically public transportation) several three-year wage agreements have been concluded, wages have never been pegged to any macro or micro economic factors at the company or sectoral level. Attempts, however, have been made at the national level: first trade unions demanded to index wages with the inflation rate, later the Orbán administration wanted to introduce a formula to ensure that real wages grow by half of the rate of GDP growth. For a variety of reasons, however, none of the proposals have evolved into an agreement.

Between 1992 and 1997 statistics were compiled on sectoral and company level wage agreements while data on single or multi employer wage agreements (by the labour law term) in the business sector have been collected since 1998. Consequently, only company level data are comparable throughout the period. While in the early 1990s (more precisely between 1992 and 1994), company

75 The paper by *Neumann and Nacs* (2004) makes an attempt at this kind of analysis examining the impact of the amendment of the Labour Code in 2001 on company collective agreements.

76 The impact of collective agreements on wages has been researched by few labour economists. See for instance the research by *Kertesi and Köllő* (2001) on sectoral wage differences and *Neumann* (2001b), (2001c) on the trade union wage gap.

level wage agreements covered 550 to 590 thousand employees, in recent years their number was fewer than 300 thousand. At the same time, the coverage of sectoral level agreements dropped dramatically in the early 1990s (from the record high 870 thousand in 1992 to a mere 88 thousand in 1995, the year of the Bokros package), and between 1998 and 2004 the scope of multi employer wage agreements decreased only slightly. While in earlier years these covered 300 thousand employees, in the last years as few as 260 thousand were covered, which is only 13.5 percent of the total workforce in the competitive sphere (see details in Tables 6 and 7 of the Statistical Appendix).

The registration system of the Ministry of Employment and Labour follows the rounds of the annual wage negotiations, and data are processed and published on an annual basis. As a result, what is published is freshly reported information – as opposed to data of collective agreements in the register. There are other reasons why the number of wage agreements is more adequate for international comparison than that of collective agreements. In other countries the primary function of collective agreements is to determine wages; in some countries (like the US) collective agreement on wages is mandatory – if a ballot approves unionisation –, while in other countries collective agreements are defined as the autonomous regulation of wage tariffs by employers and trade unions. In Germany *Tarifautonomie* (autonomy of social partners in setting wages) is a constitutional right, reflected by the German word for the agreements, too: *Tarifvertrag*. In Hungary, data recorded between 1988 1998 and 2003 suggest that 33 to 37 percent of company agreements did not regulate the “remuneration for work”. Tariff agreements, regulating individual wages to some degree, are even rarer: altogether only 136 company wage agreements included a tariff agreement, covering 3.1 percent of all employees in the competitive sphere. Moreover, the workplace interpretation of wage tariffs in Hungary is different than in Western European countries or the US (see chapter 3.3 *In Focus* by András Tóth).

As the wage increase specified in an agreement and perhaps agreed wage rates have economic policy significance, it seems reasonable to try to compile detailed statistics on them. In the system of wage agreements, the pivotal point is the National Interest Reconciliation Council: for 2004 it agreed on a HUF 53 000 minimum wage and recommended a 7 or 8 percent gross wage increase for “the business sector and the participants of collective bargaining”. Wage agreements concluded for year 2004 on the increase of base wages and increase of earnings have to be compared to the Council’s recommendations. The results of the comparison are summarised in Tables 11 of the Statistical Data Chapter.

For the sake of completeness, one more data collection of wage agreements should be mentioned, which is neither a sampling nor a registration type collection of data. In the framework of the so called Individual Wage Survey (ear-

lier called the wage rate survey), the National Employment Office not only collects information on wages from employers but also requests data on wage agreements in the competitive sphere. While the wage survey itself is a sample, information on the company are asked from each interviewed firm. This information obviously includes whether a wage agreement has been concluded with the trade union or whether there is a higher level agreement on the wages of employees. Theoretically, all companies employing over 50 are interviewed and smaller companies employing at least 5 are sampled. The rate of returned questionnaires was low in small enterprises. While in the case of large companies the results of the survey seem to be reliable, answers tend to reflect the evaluation of the company's human resources department or of the entrepreneur. Owing to this, in the National Employment Office's statistics there are three times as many companies having a wage agreement than in the records of the Ministry of Employment and Labour which is based on the company's self-reporting. On the basis of processed data it is both possible to break down wage agreements by the size of the companies and to know the average earnings of employees at companies with and without wage agreement. Among companies employing fewer than 1000, earnings were higher in companies with a wage agreement while in bigger firms the relationship was the reverse in 2004. (See Tables 5 of the Statistical Appendix.)

*Growing importance of collective agreements to make employment more flexible.* "Substantive elements" of collective agreements are much harder to evaluate than wage agreements. Although data are published annually, these cover all agreements, including those that are not in force any more. Furthermore, because of the frequent changes in the labour law, it is impossible to interpret them. To understand the contractual provisions valid in the given legal environment, flow data of the given period have to be studied. To day the only one research of this kind was about the impact of the amendment of the labour code in 2001 on the data base of new single employer agreements and amendments reported by companies in 2002 and in the first six months of 2003. These were compared to agreements newly concluded or amended in 1998 and 1999 (Neumann-Nacs 2004).

The 2001 amendment considerably extended the scope of flexibility tools applicable via an agreement, and in line with relevant EU directive introduced new minimal standards on the length of working time and re-regulated the increased protection of certain especially vulnerable groups of employees. Of the various tools of flexibility, the research focused on the internal numerical flexibility of the work organisation, i.e. how the employer can adapt to changing needs (primarily in terms of quantity) through work schedule and organisation of working time.

Reported amendments highlight that employers and trade unions exploit the various possibilities. The option of reference period is widely used: 37

percent of registering companies regulate a 2 to 6 month reference period in their collective agreements, involving almost half (49 percent) of employees covered by newly reported single employer collective agreements. The new possibility of the annualising working time is used by many: 32 percent of all companies reporting the amendment of their collective agreement and employing 43 percent of covered employees do so. Similarly, relatively many firms use the option of cumulating rest days: in 43 percent of companies the collective agreement allows cumulating over up to one month while in 22 percent over a six month period.

**Table 3.3: Regulation of flexibility tools in the company collective agreements, 2002–2003**

Tools	As a percentage of reported collective agreements	As a percentage of covered employees
Working time reference period (used)	78.6	90.6
– two months or shorter	34.6	41.9
– longer than two months but shorter than four months	32.1	45.0
– longer than four months but shorter than six months	5.0	3.7
Annualised working time	31.6	42.6
<b>Regulation on work schedule</b>		
– in shift work	68.8	79.8
– in split working time	24.5	41.3
Regulation on rest time	71.3	88.6
– cumulating rest days in one month	43.4	69.6
– cumulating of rest days in six months	21.9	20.8
<b>Maximum length of time of re-allocation</b>		
– fewer than 44 work days annually	16.6	14.6
– more than 44 work days annually	21.2	34.0
– not regulated	62.1	51.4
<b>The maximal total length of time of re-allocation, posting and transfer</b>		
– 11 per year		
– fewer than 110 work days a year	21.5	17.8
– more than 110 work days a year	11.7	27.3
– not regulated	66.8	54.3
Regulation on the form of requesting overtime	78.9	77.7
<b>The maximum amount of overtime that can be requested</b>		
– fewer than 200 hours a year	30.3	22.8
– 201 to 300 hours a year	57.7	55.1
– not regulated	12.0	12.1
<b>The maximum amount of standby that can be requested</b>		
– 201 to 300 hours a year	21.2	32.1
– not regulated	78.9	77.9

Source: *Neumann and Nacsá (2004)*.

Due to methodological considerations, it is difficult to quantify changes. While almost all collective agreements (97 percent) signed before 2001 had stipulations on work time, only 18 percent prescribed unevenly distributed

hours with the statutory working time having to be kept as an average of 2 to 4 months' reference period – quite a surprise as the law made this possibility available in 1995 with the aim to enhance collective bargaining. The conservative conclusion is that employers – at least those concluding a collective agreement – continue to prefer the traditional tool of overtime, even though it is more expensive, to flexibilising work schedule by introducing the reference period.

The wide use of new flexibility tools, however, does not mean that overtime, the traditional tool of adaptation, has been neglected. The collective agreement specifies the rule of requiring overtime work in 79 percent of companies (78 percent of employees covered by collective agreements). Additionally, 58 percent of employers with a collective agreement, employing 55 percent of covered employees set the limit of overtime work higher than the statutory (at 200 to 300 hours). The share of such employers has somewhat dropped after the 2001 amendment of the law, probably because it increased overtime hours from 144 to 200 that can be required without a collective agreement [(4) par. 127 Labour Code]. Still, the majority of Hungarian employers with a collective agreement demand to increase the annual limit of overtime work.

The impact of the amendment of the Labour Code in 2001 encouraging collective bargaining has been felt not only at the company level. It is noteworthy, however, that over the past years only one new sectoral collective agreement has been concluded and that was in agriculture. Since 2001 seasonal work, widely used in this sector, has been allowed only if regulated by a collective agreement. The sectoral agreement has stabilised the conditions of employment and employers' labour management in a large part of the sector (to be more exact: at member employers of MOSZ, the signatory employers' organisation).

### 3.2 Collective Bargaining in Publicly Owned Companies – A Case Study from the Road Public Transport

KRISZTINA KORCSOLAY-KOVÁCS

#### *Characteristics of the operation of road public transport*

Road public transport is in the center of public interest, mainly in case of conflicts. Its economic problems can be hardly followed by outsiders. The operation of the sector's Volan Companies in majority public ownership is supervised by ÁPVRt (the Privatisation and State Holding Company) and other governmental institutions, first of all, the Ministry of Economy and Transport. Tariffs are set by local governments and approved by the Ministry of Finance, following inflation and social policy considerations while operating costs are determined by the market. Consequence is the lack of resources and the companies are not able to operate in conformity with the market, or to perform an independent economical activity. Redistributive policies affect investments as well. Therefore companies and their management are depending on the state.

#### *Labour relations in the sector*

##### *Players*

The Privatisation and State Holding Company (ÁPVRt)

The activity of ÁPVRt is regulated by the Act on Privatization – 1996/XXXIX, the annual laws on national budget, government and ministerial decrees. From 1995, ownership rights over Volan Companies are exercised by ÁPVRt, and operation of the companies is controlled by the ministries, mentioned before. Up to 2002, majority state ownership was the rule, from that time onwards full privatization became possible.

Amendment of Act on Privatisation in 2003 allowed local governments to take over companies in the sector, for free. When towns – like Pécs and Szeged – demanded the ownership of Volan companies, the government refused these demands, having in mind privatisation intentions. Companies and experts were charged to elaborate ownership strategies. To date no choice has been made, several possibilities remain open ranging from creating regional or county level companies to case by case privatisation.

Amendment of the law of 2002 had no effect on the bargaining strategy of trade unions. Unions do not expect near privatisation and consider former wage increasing strategies still valid.

Association of Road Transport Ventures (ARTV)

ARTV is an employers' association, which represents professional interests of enterprises providing road transport services and similar activities. ARTV has 73 affiliates, from which 52 concluded sectoral collective agreement.



Number of employees, who are under the scope of the collective agreement, is 25500. From those, who signed the collective agreement, 24 companies are involved in the passenger transport.

In the protection of the interests of its affiliates, ARTV represents members' interests in sectoral interest reconciliation fora. ARTV is a member organization of Employers' and Manufacturers' Association and – as a member – initiates discussions at the top level of negotiations. ARTV has also relations with other institutions, or associations, like governmental bodies, or National Association of Freighters, International Association of Private Freighters.

Affiliates of ARTV are authorized to issue common recommendations with employees' representatives and conclude medium level agreements. According its Statute, keeping agreements is mandatory for the affiliated companies, without subsequent ratification and excluding any opt-out. Among the agreements concluded, the most important is the *collective agreement for the road transport sector*, signed in 2003.

#### Road Transport Workers' Union (RTWU)

RTWU acts from 1990 as an independent, professional trade union. Membership in the period of establishing was nearly 100000 from the passenger and goods transporting branches. This membership has been reduced significantly in 1992 and 1993, when Volan transformed to holding companies. In the field of RTWU's activity (mainly in Volan Companies and other small companies, which belonged to Volan before), number of employees today is about 24000; trade union density is about 60 per cent, including blue collar and white collar workers. With about 14000 members, RTWU is the largest union in the sector.

One of the most significant results of the trade union is that a sectoral collective agreement has been concluded and local collective agreements are regulating living and working conditions at every workplace. RTWU is planning to involve all of the companies in the sector to the scope of sector collective agreement.

Apart from RTWU, there are two other trade unions at the Volan Companies; Bus Workers Union (BWU) and Union of Workers' Councils in Transport (UWCT). According to an estimation of 2001, membership of these two unions was 1000–1000 affiliates. From that period, UWCT influence is better; during the works council elections in 2004 received about 10 per cent support. It means that together with RTWU, which has a support of 74 per cent, UWCT is the other representative trade union.

#### *Institutions of the labour relations system*

Apart from the very recently established social dialogue committee of the road transport sector, other permanent institutions do not exist. There are, however, institutions of partnership, as follows:

- Sectoral collective bargaining
- Modernisation Committee
- Social Dialogue Committee for the Road Transport Sector
- Collective bargaining at lower levels.

### *Collective bargaining – sectoral collective agreement*

Labour relations system at sectoral level is a bilateral. During negotiations of the annual amendment of the collective agreement a committee consisting of the representatives of RTWU and ARTV, prepares suggestions for approval. Apart from the workers' and employers' representatives, owners' representatives are also present at the annual wage negotiations. It is typical, that employers' association forward a statement, which is already approved by the owner.

The first sectoral collective agreement was concluded by RTWU and ARTV in 1991 for an undefined period. This agreement has been amended several times. In the first period one or two companies, in every year missed to join the sectoral collective agreement for some local reasons. From 1998, all of Volan companies are signing the agreement. The sectoral collective agreement is in fact a framework agreement, the conditions of which can be improved on local levels. (A typical example is that working time and rest time for workers who are on the road, should be fixed in local collective agreements.)

### *Modernization Committee (MC)*

This is a permanent tripartite committee, established in 2003 and based on a "three-year agreement". Members of MC are: Ministry of Finance, Ministry of Employment Policy and Labour, Ministry of Economy and Transport, RTWU and ARTV representatives. Reason of its establishment is to negotiate issues of dissatisfaction among employees in the road transport sector in view of finding scheduled solutions. MC had a very important role between 2003 and 2005 by providing a possibility to negotiate on significant tasks relating to passenger transport and continuous dialogue.

### *Social Dialogue Committee for the Road Transport Sector*

Within the frame of an EU program, the government initiated this institution, but the presently available information on its activity is not enough for an evaluation. Interested workers' and employers' representatives of the sector negotiated regularly, before the start of this project, concluded a collective agreement, mentioned before, and now they are working on its extension.

### *Local collective bargaining*

As described above, the sectoral collective agreement provides a framework to regulate employment conditions. Next step is to negotiate local collective agreements, whose outcome depends on what companies can financially afford

and local trade unions are strong enough to reach. Local collective agreements shall improve conditions of the sectoral agreement in favour of the employees. In practice, local agreements are concluded before signing the sectoral agreement, therefore this principle is not always observed.

*Work related conflicts, serial of disputes, exercising pressure*

Labour conflicts are arising most often – both on sectoral and local levels – during wage negotiations. Disputes, debates on diverging interests are normally settled by negotiations. Trade unions initiated a strike only twice, during fifteen-years, in 1990 and 2003. Unions threatened employers more often with strike, last time in 2005. Trade union try to exercise pressure not only on employers, but also on the HPSHC, in other words, on the state having a decisive role in financial and ownership matters.

*Labour relations between 1999 and 2005*

*Events in 1999–2000 – lessons from a trade union coalition*

In OÉT (the National Interest Reconciliation Council) the social partners positions in the 1999 autumn round of were significantly different on minimum wages and income increasing for 2000. Employers offered 8–10 per cent, but trade unions demanded 13.5 per cent. Government proposed an annual wage increase of 8–9 per cent and recommended a three-year price-wage agreement to the partners, in order to reduce the rate of inflation. Government's recommendation was not negotiated. The employee side called for more confidence among partners and guaranties for the agreement. According to the evaluation of trade unions, labour relations on macro level have not worked between 1998 and 2002 during the conservative Orban-government, in December 1999 conflicts arouse in wage negotiations both in the business sector and public sector and a solidarity block of transport unions was formed to emphasize wage demands. A cooperation agreement – concluded to define common actions and demands – was signed by the RTWU, Bus Drivers' Union of Budapest, Locomotive Drivers' Union, and Federation of Urban Public Transport Workers' Unions. (Later on Railway Workers' Union, an affiliate of the Hungarian Trade Union Confederation also jointed this cooperation agreement, indicating the possibility of cooperation going beyond trade union confederations.)

After signing the agreement, trade unions still continued wage negotiations and collective bargaining. Unions' main goal was to demonstrate their cohesion, proved by the signing of this agreement. Another goal was to maintain a lower retirement age for about 5000 locomotive drivers, 4300 trolley, tram and bus drivers in Budapest, and more than 11000 bus drivers under the authority of RTWU, against the rumours of unfavourable amendment of the respective law.

Most critical part of the agreement referred to solidarity strikes. By the founding of the Autonomous Trade Union Confederation, trade unions of transport workers can be characterized with their readiness to actions, however solidarity strikes have been experienced very rarely. The text of the agreement mentions only strikes, longer than two hours. Practice shows that in the road transport warning strikes are in general short, but railway workers had some strikes for a longer period.

Cooperation agreement finally came into force from January 1 of 2000 without requiring to express solidarity with the railway workers' planned strike of December 20 of 1999 by stopping work. The argument was, that one week is not enough to organize a solidarity strike. Agreement came hardly into force, and it was an indicator of the lack of experience, and uncertainty of participating unions in this kind of cooperation.

RTWU made a decision on a warning strike on January 10 of 2000. From continuous checking the spirit of union members and collected information, became clear for the trade union leadership that expectations for a common action of trade unions on the base of cooperation agreement have been overestimated. A strong majority of the membership supported the action and expected a demonstration which shows the strength of unions. It was supposed, that – as happened with railway workers during their strikes – this part of the transport branch also deserves the attention of the population and more intensive support of the state. A certain part of the employees opposed the agreement arguing that there is no reason to support railway workers' actions, because their wages are high enough. This was reinforced by the employers' side, when they expressed to trade union leaders, that they oppose the signing of the cooperation agreement.

It became clear for everybody; trade unions could paralyze public transport as such with this broad scale solidarity. Both the Government and employers recognized the strength of trade union cooperation. Therefore, during the negotiations in the road transport sector, employers' side – just before agreement – declared to RTWU that only condition of signing the agreement is to terminate the cooperation agreement.

It was a good tactical step from the employers, because RTWU for the successful wage agreement has been pressed to amend the text of the cooperation agreement and approve a weaker form of support for the common actions. By this step, first time in the RTWU history, employers reached the amendment of the cooperation agreement, so the trade union coalition practically dissolved. The government's tactics were successful; they could break the unity of the partners, who signed cooperation agreement, to separate the wage negotiations of different sectors just in time, to remove trade unions from a block, which seemed originally strong. These actions have been supported with well-considered propaganda actions; anti-union forces created conflicts among the

union members in different sectors. At the same time they discredited trade unions by their campaign. Employers operated with apparent or real advantages in order to reach a quick agreement with trade unions. Followed by the separation of RTWU, same method was used against the trade unions of Budapest Public Transport and finally, railway workers unions which during their wage negotiations declared a strike without external support.

At the same time with announcement of the strike, the media reported that Volan Companies will increase the density of their lines. Trade unions of railway workers during their strike have been affected by several pressures. The employer published the sum provided to trade unions annually as a support and cancelled the collective agreement. Application of a check-off system for trade union fees was refused. The employer declared that immediate wage increase is blocked by trade union irresponsibility. With these manoeuvres the employer divided the trade union members and the non-organized employees. Information was published in the media – paid by the employer – on the decreasing number of strike supporters, and the damage, caused by the strike to the Hungarian Railways, which is in hard financial situation. Trade unions have been defeated not only in their wage struggle, but also in losing sympathy of the public. These measures of the employer, behaviour of the management of the Hungarian Railways against trade union demands, gave an example to be followed to other employers.

### *Events in 2003*

RTWU together with other two unions in the sector [Bus Workers' Union (BWU) and Union of Workers' Councils in Transport (UWCT)] concluded an agreement already in 2002 with HPSHC on a program, closing the wage gap compared to developed economies. RTWU prepared a document, supported by other unions and employers in early November. In this program, RTWU determined ambitious goals, first the wage level at Volan Companies will reach the national average and finally the EU average wage level will be reached. HPSHC refused negotiations, however it was promised earlier. RTWU considered that HPSHC applied the tactics of playing for time only, when agreed to elaborate such a program. BWU and UWCT expected further negotiations and declared in the media that to call for a strike is too early. For the pressure of the union members, RTWU could not approve this stalemate situation and initiated a strike for January 6 2003, for the closing up program and wage negotiations.

HPSHC, as owner asked for the assistance of the Mediation and Arbitration Service (MAS). Negotiations started on December 14 2002 with involvement of the Ministry of Finance, the Ministry of Economy and Transport, the Ministry of Employment and Labour; HPSHC, RTWU and ARTV representatives have been also involved.

Parallel to the negotiations, strike preparation went on. The pressure on the government was increased, at the same time several other trade unions prepared strike actions. In order to provide uninterrupted public transport, the government wanted to avoid strike and conclude an agreement. Avoiding a strike became a political issue but the government's offer was far from the employees' expectations and the unions went on strike on January 6 2003 (according to trade unions, 70 per cent of membership participated in the strike).

After this action, negotiations with the trade unions continued the voice of the employer's side was taken by the Government, personally by the Minister of Labour. This fact had a direct influence on the contents of the agreement and its mandatory character. The employers' association sometimes was absent from the negotiations what indicates how the agreement became a direct political issue. As a result, a three-year agreement was concluded between RTWU and ARTV, which was also signed by the President of HPSHC and the Minister of Labour, as a guaranty of its implementation. This agreement was a big step forward; wages in the sector were increased nearly to the national average despite limited paying capacities of the companies in financial difficulties.

Against the original idea of unions' to finance higher wages from external sources (with government help), companies had to finance significant wage increasing at their own expenses.

### *Events in 2005*

The three-year agreement determined the rate of wage increasing only for two years. For 2005, it was only fixed as a principle, that HPSHC will take special care to Volan Companies. Annual wage negotiations after the relaxing became sharp again. The trade union when its wage demands have been formulated, wanted to continue wage dynamism, as defined in the three-year agreement, therefore demanded a 12 per cent increase, twice as the 6 per cent recommended by OÉT (the National Interest Reconciliation Council). Negotiations – however the owner was present – came to a deadlock, because the management, according to the practice of former years, was waiting for the owner's instructions. Representative of HPSHC remained silent. Negotiations stopped; therefore trade union again initiated a strike for January 24 2005. Only little time was available to organize this strike and it was necessary to harmonize wage negotiations on sectoral and local levels. During negotiations, the union delegation was aware that both employers and employees consider the main task of trade union to improve financing capacities of the sector, as it was defined earlier, and everything should be subordinated to this goal.

Companies' financial policy was significantly influenced by the relatively high wage rise. As a consequence of the companies financial tensions, grave



“anti-labour” measures – lay-off and outsourcing of service units – appeared among their strategic goals. The dilemma, to increase wages further or to maintain jobs caused disputes within RTWU.

Media had a significant impact on the events, by publishing RTWU Presidium’s resolutions of the last meeting before strike. This contributed probably to the fact that the offer of the Ministry of Employment and Labour arrived during the meeting of the RTWU leadership, which approved the oral recommendation and to suspend the call for strike.

Further events did not meet trade union’s requirements. Because this offer was not received on an official way from an “external authority”, which formally was not present at the negotiations, the owner, HPSHC declared that the promise of an outsider governmental body is not binding for them and returned to its original, lower offer. It is not known even today, that this manoeuvre was a result of well elaborated tactics or a sign of cooperation loopholes between two governmental institution.

As a matter fact, the situation changed in favour of the owner, by the postponement of the strike, trade union lost its most effective tool, organization of a new strike became impossible because local agreements have been already signed. Finally, an agreement was signed on sectoral level with a weak content and minimum result.

### *Government’s strategy, means and results*

According to government’s opinion, during recent years different areas of passenger public transport need to be treated in a different way. In the transport policy, elaborated by the Ministry of Economy and Transport in conformity with EU requirements, rail transport is dominant; passenger road transport has only a second best position. Another difference in the treatment of passenger transport areas is to be found in the financial conditions. Financing of losses and subsidies are different for state owned and municipal companies. Losses of Hungarian Railways and Budapest Public Transport Company have been compensated on “state level”. For Volan Companies, positive financial results is an owner’s requirement. In addition, the different segments are under the control of different institutions. Hungarian Railways belong directly to the Ministry of Economy and Transport, Volan to HPSHC and Budapest Public Transport Company to the Budapest local government.

During the examined period, governments have not possessed a comprehensive strategy for the future of road transport. This is the reason, that during conflicts, the main goal was not a real solution of the structural problems, but a temporary surface treatment of the problems. It should be noted that methods of right wing and left wing governments were different. The Orban-government (conservative) took the advantage of the conflicts in the sector, gave a hard “message” to trade unions, that it cannot be blackmailed with strikes



and is stiff in this respect. Other events, independently on government's will, also weakened trade union positions. The Medgyessy and later, Gyurcsany governments (both are socialist-liberal coalition) never used hard methods against trade union during negotiations in 2003 and 2005. During the election campaign of 2002, the stronger party (socialists) of the winner coalition concluded an agreement with trade unions, their political goals and tactics always depended on the actual financial and political positions. At the same time – in contrary to the conservative government – they are always ready to negotiate and find political solutions. They also played for time, tried to avoid scandals and achieve successes with a better media performance.

Concluding on the events of 1999 and 2000, it should be noted, that transport unions survived the most serious defeat in the last fifteen years. One reason of defeat was a bad trade union strategy, because – on the base of former experiences – it was supposed that their goals are best served by the application of tools once used with succes (strikes in case of railway workers and threat with strike). It was not taken into account, that management – in accordance with government's political will – is well prepared. Their main goal was to break the strategically strongest transport unions, which can be a message to the Hungarian trade union movement as a whole. Its consequence is – even today – that trade unions of the sector are accusing each other for the defeat; they do not make efforts to a closer cooperation and stronger wage demands.

HPSHC during negotiations served always the government's goals. It played the role of an "employer of management" in state owned companies and tried to explore and exploit the weak points of trade union. HPSHC also tried to conclude local agreements before the sectoral agreement. A new phenomenon in 2005 was the intervention of the Minister of Economy and Transport. At the same time, it was a surprise to experience the lack of harmonisation among the ideas and activity of governmental institutions. (As it was seen before, HPSHC did not want to implement the promises, taken by the Ministry of Employment and Labour to RTWU.)

### *Goals and tools of the employers' side*

1. Goals, defined by HPSHC and other governmental institutions under certain conditions and for their tasks. (An example is the requirement to avoid company deficits.)

2. Professional goals related to financing and development on sector level.

3. Goals, given by the own financial situation of Volan Companies. (Goals are probably different at th small-sized Hatvan Volan, whith a staff of 179 and at Volanbus with its 3196 employees.)

Employers' behaviour during negotiations can be explained along these goals.

Ad 1) Situation of the employers' association in the passenger road transport sector is a special one, because ARTV is authorized to conclude agreements with the trade union side, but in its contents owner's will is definitive. Members of the ARTV negotiating group often had to face impossible financial requirements, defined by the owner as a condition of wage increasing. During negotiations government and HPSHC, the owner's representatives had a dominant role, ARTV had only a secondary position. Very often they had to content with a spectator's role. For the full performance of passenger road transport services (keeping the timetable and the level of services), majority of Volan Companies was forced to act under negative balance. Evaluation of management's performance instead market results, was based on meeting HPSHC requirements, which gave a good reason to keep HPSC under direct control.

To meet owners' requirements companies should undergo a significant reorganization. Consequences of this would lead to a new conflict with the trade union. Employers could reach that local and sectoral level wage negotiations are running at the same time and this phenomenon is useful for the employers to reach their own goals. During preparation of strikes, trade union received news on several local wage negotiations, sometimes on agreements. No doubt, implementation of the so-called "welfare principle" requires to conclude sectoral agreement first, and then local agreements with improved conditions. This procedure is not against to details of legislation; however, legitimacy of this top-down method is questioned. This uncertainty of legislation is reflected in the fact, that very often declaration of intentions for local agreements has been published before negotiating sectoral agreement.

Ad 2.) During all the three conflicts, sector's financial conditions came to the attention of trade union demands either openly, or hidden. Employers made understandable to trade union, that only solution of financial problems can create a base for fulfilling trade union goals. RTWU faced this phenomenon most openly during the 2005 bargaining round.

Ad 3.) Financial situation of some Volan Companies encouraged their management to initiate parallel negotiations and conclude local level agreements during sectoral negotiations. Therefore, not the sectoral agreement was the base for setting wages (it was mentioned before, that often paying capacities of the companies have not been considered). Local trade unions unwillingly approved this condition. It is important to point out, that local trade union leaders are employed by the Volan Companies, and therefore they are in a very special position in implementation of trade goals and consideration companies' interests.

### *Goals and tools of the trade union's side*

From 1999, the goal of RTWU was wage rise on sectoral level. In the first step, the strategic goal was to reach the national average, then the average of

the whole sector. In the third stage a gradual closing up to EU wages was targeted. Naturally, it was an important point not to harm former results, social achievements and to protect employment level and to improve working conditions.

Struggling for the primary goal, trade union had to face the financial problems of the sector. Another problem was that because of the continuous financial difficulties of the sector, trade union wage demands caused troubles to the companies. As a consequence of wage demands, trade union faced to the second serial of problems, related to lay-offs and outsourcing, raising the question, what should be the primary goal, wage increasing, or the protection of workplaces.

From the situation of the sector and unchanged financial conditions wage closing up ambitions of trade union can accelerate government's privatisation ideas. A conclusion for the trade union can be, that under given financial conditions, a wage closing up strategy could be a new source of problems. Proper solution should be involved to trade union tasks. A series of conflicts showed both strength and weaknesses of the trade union. Results of the consequent and disciplined struggle during sectoral level negotiations, partial closing up of wages during five years are evidence of trade union's strength. When the operation and ability to act were controlled, experience shows that that RTWU considered as a special task to reinforce unity and solidarity within the trade union and to develop cooperation with other sectoral unions. Revision of the defeat of 2000 now is a part of training programs, as well as using the experiences to rene relations.

Trade union goals can be briefly summarized. In short term, to exercise influence – even with a common platform with employers – to improve financial situation of the sector, at the same time to provide better conditions for the employment. It can be fulfilled by the extension of the sectoral collective agreement and provide equal conditions for the companies in the sector. Since the EU accession, the extension of mandatory guaranties in passenger transport to private sector also serve the provision of equal conditions in the competition. Public service contracts, concluded in 2005, make mandatory for Volan companies to involve subcontractors', which are not under the scope of collective agreement. A long term goal of the trade union is to have an influence to change companies' structures, possible by regional mergers and way of privatization keeping under control its timing, circumstances, and conditions of employment in particular.

A good number of problems in the sector needs the strengthening of trade union activity, because this is the only way to represent workers' interests during privatization and restructuring, completing the necessary transformation without conflicts together with protection of employees' interests.

### 3.3 Regulated Employment or Regulated Individual Bargaining? Strategies of Post-Guild and Post-Socialist Trade Unions to Regulate Employment Relations

ANDRÁS TÓTH

This chapter investigates the role of collective agreements in regulating employment relations in the business sector. On the one hand, the form and quality of regulating employment relations is crucial for companies exposed to sharp and unrelenting competition. On the other hand employees have the least security in terms of employment and future prospects in the business sector.

In trade unions' understanding having a collective agreement equals with regulated employment and the collective protection of all employees. Without a collective agreement, employees are exposed to ruthless individual competition and bargaining; however, because of their labour market and work organisation situation their bargaining position is weak and thus cannot defend themselves against the powerful employers. Rather than question this "axiom", we will prove that today's Hungarian trade unions, rooted (or socialised) in the world of socialist enterprises, understand the regulation of employment relations very differently from classical trade unions – be them the social democrat trade unions that existed in Hungary from 1945 to 1947 or the present day Western European or American trade unions. Despite the complete change of the economic and legal environment, the interest representation strategy of trade unions – and maybe the needs of employees – continues to be shaped by the role they assumed in the socialist era. The problem is not only that trade unions are imprisoned in their own archaic and obsolete understanding of their roles but also that this "traditional" role inherited from socialist times perfectly fits the production and work organisation strategies of companies interested in flexibilising regulations. In most cases companies do not welcome trade unions, but acquiesce in their participating in regulating employment relations. Indeed, many companies do their best to marginalise trade unions and to make it impossible for union activists to work or to eliminate them altogether.

Firstly, the history of the regulation of employment relations through collective agreements will be briefly reviewed: how the workers' protection in the 19th century and under socialism impacts the regulating mechanisms of collective agreements. Then the reception of trade unions' present day activities by the company management will be scrutinised together with collective bargaining that largely shape industrial relations in Hungary.<sup>77</sup>

#### *Post-guild trade unions*

The direct predecessors of the currently existing trade unions were born at the same time as the newly emerging free market economy disrupted the work or-

<sup>77</sup> The paper is based on the author's empirical research on the clothing, machine and vehicle manufacturing industries as well as on interviews and meetings with trade union members and activists in Hungary, Germany and Spain (see Tóth 2002).

ganisation of guilds. The first trade unions, the so called craft unions, tried to restore the traditional job security under the new circumstances. Their main objective was to ensure job security for skilled workers by regulating standards for admission into the trade and maintaining the traditional terms and conditions of work. The key idea underlying this objective was to protect employees who comply with the rules of the craft against free competition and the unforeseeable actions of the entrepreneur (owner).

From the very beginning trade unions sought to maintain the usual – and identical – terms and conditions of work and wage levels, standardised rules (the processes, tools, standards and pace) of work, regardless of the financial situation of the enterprises employing workers in the same craft. The first collective agreements were – to use the current terminology – *regional professional* multi-employer agreements.

This *post-guild* understanding of skilled worker and the *regional professional* multi-employer regulation set the direction for the development of trade unions and became part of the European, and perhaps even “global” trade union ethos. The standardisation of unionism was enhanced by the frequent migration within Europe and immigration overseas of apprentices. The crystallisation and extension of this view of skilled workers onto semi-skilled and unskilled factory workers was actively enhanced by the Second International. The main objective of trade unions in trying to achieve the regulation of employment relations was to maintain the autonomous and self-regulating worker community and restrict the company management’s discretionary jurisdiction over individual workers.

This image of the workman determined the bargaining strategies of trade unions against the rapidly spreading Fordist work organisation model in the first half of the 20th century. After gigantic fights and battles, a symbiosis was formed between the Fordist technology of work organisation aiming at hierarchical and well defined workplace positions and trade unions, similarly wanting rigid regulations. The main aim of collective agreements quickly spreading in the 20th century was to limit employers’ scope of action to the smallest possible. Their tools were the following:

- A rigid wage scale system in which exact and fixed wages are assigned to a matrix of vocational skills and number of years in employment. In this type of wage scale system exact and mandatory amounts of pay are set instead of a minimal wage which would only be a benchmark for setting the actually paid wage of each of the employees by the management or by individual bargaining.
- Exact regulation of fringe benefits and bonuses, which again does not leave much room for remunerating or penalising employees according to the quality of their work and attitudes.

- The system of job description which exactly specifies the content of each job.
- The system of hiring and firing as well as management's free job assignment provide the exact and transparent criteria of terminating the employment relation.<sup>78</sup>
- Administrative tasks related to and implementation of collective agreements is carried out by bilateral bodies and internal fora.

With the technological changes, the Taylorist and Fordist work organisation which was the almost absolute regulatory model in the 50s and 60s, has been gradually replaced by a Japanese style management and organisational paradigm from the late 80s onwards. Despite the resistance of trade unions, all over the world company managements insist on replacing the rigid wage scale systems with individualised and flexible wages based on individual evaluation. And instead of assigning workers fragmented and hierarchically organised work regulated in job descriptions, companies demand versatile labour and flexibly defined job contents.<sup>79</sup>

The "Japanisation" of the work organisation in the United States and later in Europe was a serious challenge to traditional interest representation strategies. Wages rewarding individual performance and attitude, flexible job assignment and production organisation have become crucial to competitiveness. Over the past two decades, employment relations have become more flexible and thus sectoral collective agreements lost some of their regulatory power. We agree with Western researchers that this process can be regarded as an "organised retreat" of trade unions hit by a dramatic loss of membership and by social and political depreciation (see for instance Visser 1994). Interest protection in the spirit of "make concessions and let the management flexibilise the labour market to be able to preserve jobs" leaves collective agreements the only function to limit the flexibility of local bargaining and maintain a minimum of solidarity. This modified interest representation philosophy is founded on the hope that with "better times to come" concessions might be taken back and by mobilising members and using the tools of industrial action trade unions will be able to realise the demands they could not agree on with company management.

### *The socialist trade union legacy*

The introduction of socialism and command economy removed both trade unions' freedom and employers' autonomy. Trade unions were reorganised on the Stalinist model (Pető-Szakács 1988). The basic guideline was organising by sectors, and workplace trade unions belonged to the sectoral organisation of the industry in which the company was active. All employees had to be union members regardless of their hierarchical or professional position in the company. Trade unions were absorbed in the power structure of the par-

78 For instance, the typical collective agreement in the US stipulates the seniority rule, i.e. ties the order of redundancy to the years spent at the company. According to this principle, that employee working in a given group of jobs has to be laid off first who was hired last. If the company plans to hire some for that job within a certain period of time, first it has to contact the laid-off worker, and the order of hiring should follow the seniority principle too.

79 Not surprisingly, new production organisation procedures were developed in Japan, where a forced pace and state supported industrialisation started in the third part of the 19th century. The main actors in this process were not immigrant skilled workers but Japanese engineers and entrepreneurs who had studied Western European and American production organisation procedures and adapted them to local needs. That is why guild unionism never developed in Japan. Engineers building the first factories in Japan in the 19th century relied on professional and job flexibility (Aoki 1987).



ty state and their main responsibility was to ensure the meeting of planned production targets and implement social policy ideas. The regulatory role of collective agreements was taken over by legislation. Collective agreements concluded by workplace trade unions were nothing else than a collection of offerings of performance targets by employees. Employees' interest representation was driven underground (*Varga* 1994).

Collective bargaining to regulate the workplace differently than the standard legal provisions was made possible by the labour code enacted in 1967, as part of the "new economic mechanism". The new law helped company labour markets develop and the different bargaining positions of employees and employee groups within the company surface. Trade union activities were integrated in the formal and informal bargaining over plans as part of the negotiations within the company management. Employees' interest representation strategies and tactics concentrated on individual and small group informal bargaining (*Héthy* 1978; *Héthy-Makó* 1972, 1978; *Simonyi* 1978; *Kemény* 1990a), sometimes helped by the trade union, sometimes in opposition to it. However, trade unions' absorption into the power structure and the continued ban on self-organisation of employees were an impediment to the solidification and crystallisation of informal and occasional interest alliances. In the lack of market competition, requirements of skills and special knowledge softened. Depending on the products, technology, production tasks, internal labour markets and management intentions of the companies, the various local groups of workers were in key positions rather than important professional and occupational groups. Internal company labour markets were flooded with a surplus labour force, and even workers in the same profession or group had different strategies. With the relaxing of central wage scale systems, payments increasingly depended on the bargain with the direct superiors.

With this kind of employee interest strategy, which relied on informal, individual – sometimes group-level – bargaining and on paternalistic relations employees did not need "real trade unions" which, in the name of solidarity and equality, would try to prevent the unequal distribution of overtime work, bonuses and other forms of performance related supplementary earnings, but would limit overtime work out of safety considerations and curb competition between employees in the area of individual earnings. They could not even think about establishing autonomous trade unions to provide institutional protection against the decisions, "unfairness" and "favours" of the management. Trade unions were viewed negatively because they did not have the collective power to be the transmission between the employee and employer in their individual and particular relationship. That is why workers who had known the power and influence of trade unions before socialism thought that socialist trade unions played too little a role, while younger generations did not have any positive experience with interest protection at all (cf. research



by I. Kemény in 1968–1969 that could be published only more than twenty years later: *Kemény 1990a*).

Workplace trade unions became parts of the informal bargaining system permeating the command economy: on the one hand, they lobbied together with the company management for supports at the bureaucratic centres of economic administration and on the other hand became tools of bargaining within company over the distribution of company resources. Apart from the forms of wages and fringe benefits, workplace collective agreements did not regulate the wages of the individual employees or groups of employees. In fact, they were “plant level work schemes” devised jointly by unions and management and served as the “implementation manuals” of the Labour Code. Actual earnings depended on the individually set base wage and on the distribution of “well paying jobs” and overtime work.

Basically, socialist trade unions failed to meet the two main functions of the pre-war Hungarian and post-craft Western European trade unions: 1) restrict competition between employees in the same occupation or profession and across groups of employees in different professions, levelling out the terms and conditions of work, approximating wages and making wage differences permanent; and thereby 2) reduce the exposure of the individual employees and limit the free decision making of company management in the various issues affecting employees. Under the conditions of generalised labour shortage and a second economy, employees improved to perfection their labour market strategies based on individual and small group wage bargaining and on combining work in the first and in the second economy. Given the overriding importance of the success of individual strategies and the political constraints, the need for a trade union that translates individual and professional or occupational interests and violation of rights into an issue of institutional and collective interests and rights, one that works for standardized terms and conditions of work and efficiently curbs wage differences and supports solidarity in the world of work never arose.

#### *Inherited trade union behaviour and current company strategies*

The regime change opened up the road for real employee interest representation. The basis of the new trade union model – the bipartite regulation of the employment relation – was the workplace trade union. Trade unions inherited from the previous regime became independent and autonomous legal entities. They write their own statutes, plan their representation strategies and can decide independently over every important issue, including joining one sectoral trade union or trade union federation or another. Workplace trade unions decide themselves the agenda of negotiations with the company management and their demands in collective bargaining. The role of sectoral organisations and federation in local bargaining is limited to consultancy and

assistance. The role of the sectoral collective agreement, if there is one at all, is of a supplementary nature (in some sectors it specifies only the minimum conditions). Since the first and only wave of sectoral collective agreements in 1992, the group of employees covered by sectoral or sub-branch collective agreements has considerably shrunk (Tóth 1997a).

In contrast to developed market economies, the legacy and one of the main characteristics of the new system of industrial relations is that workplace trade unions concentrate their efforts on participation in the development and regulation of the terms and conditions of work and employment in the labour market of their own companies rather than developing standardised employment conditions in the (sectoral, professional and local) labour market outside the company.

Their approach to participation is largely defined by the nature of company wagescales, inherited from socialist times. The system specifies broad brackets of wage scales for large employee groups according to educational attainment: unskilled workers, semi-skilled workers and skilled workers. Under socialism, actual individual wages were determined only after a formal agreement with the trade union was made. Decision 42/1990 (VI. 12.) of the Constitutional Court repealing section 2 of the ministerial decree 48/1979 (XII. 1.) had an especially great impact on current practices. According to the decision, it is unconstitutional that personal base wages can be determined only with the trade union's agreement because this practice restricts the contractual freedom of the party to the work contract in individual issues related to the employment relation. This decision, made at the time of the regime change, suggests that the judiciary were unsure whose interests trade unions were supposed to represent and chose to protect the individual against the trade union – presumably on grounds of experience from an era when trade unions were part of company management rather than interest organisations (cf. *Kollonay-Ladó* 1996, pp. 115–116). Both the constitutional court decision and later the new Labour Code emphasised the contractual freedom of the employee and confirmed that in the course of collective bargaining it is the trade union's function to bargain for the best possible conditions and terms under which the employee and the employer can agree on actual wages and conditions of work. However, later it became clear that given the weak bargaining position of employees, the agreement in the legal sense authorised the company management to decide unilaterally in most cases.

The sharp difference between post-guild and post-socialist trade unions is their agenda of bargaining and agreeing with the company management and how the outcome of bargaining relates to the regulation of the broader regional, professional and sectoral labour market. The first type of trade unions wants to negotiate rigid wage scales to make the possibility of “partisan” bargain between the individual employee and employer the smallest possible.

Their goal is to develop a mechanic wage scale system that enhances solidarity and in which one employee's wage position can change only if everyone's changes. Post-socialist trade unions negotiate gross wage increases at the company, minimal wages for groups of employees (such as unskilled, semi-skilled etc.) or broad wage that specify lowest and highest wages, and potential extra wage raise possibilities for various areas, profession groups, organisational units or well defined groups of employees. The increase of individual wages, however, is decided by the management in the frames of an agreement and the actual wages of the individual or groups of employees continue – optimally – to depend on informal bargaining.

A research on the impact of the amendment of the Labour Code in 2001 on companies, in which the language of collective agreements was analysed, underpinned the finding that trade union bargaining produces a framework agreement in nature (*Neumann–Nacsá* 2004). As known, in several cases the Labour Code permits to deviate from its provisions not only through a collective agreement but also through “agreements between the parties”. In the majority of cases, individual work contracts are not different from the provision of the law in terms of working time and work schedule, which, however, does not mean that employers do not use the option of agreement between the parties. In practice, these are primarily agreements made verbally on an occasional basis therefore it is difficult to tell the line between an agreement and a demand or instruction by the boss that are unconditionally fulfilled by subordinates. The organisation of work at the workshop level largely counts on this kind of “agreement between the parties” 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 include the possibility of deviation from the main rule “with the agreement of the employee”.

Interviews prove that trade union leaders have a special post-socialist view on trade union functions, regardless of which confederation they belong to, where their political sympathies lie, whether their companies are foreign owned green field investments or privatised successors of a one time socialist enterprise. In this understanding, the essential responsibility of the trade union is to develop a broad framework of conditions. While they fight for higher wages, what they bargain for is the increase of the gross total of wages at the company and/or the minimal wage increase. At the same time they accept the unlimited right of the company management to determine individual wage increases within the frames agreed on by the trade union.

In Hungarian trade unions' interpretation collectively regulated industrial relations 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 bargaining

informally with individuals and small groups – outside the trade union. This idea of interest protection seems to suit the company management interested in flexibilisation. Everyday experience suggests that the company management often regards even this flexible framework regulation as too rigid and tends to reject trade union demands on wage increases and on certain employment conditions. The possibility of developing and maintaining bilateral regulation through bargaining depends on the behaviour of the management, the restrictions imposed by market competition and/or by the company headquarters, the trade union's flexibility and/or ability to exercise pressure. It frequently happens that the company management wants to get rid of even the smallest of constraints and tries to marginalise trade unions, making operation impossible for activists and drive them altogether out of the company. Trade unions are often unable to defeat the management's efforts to unilaterally regulate the conditions of work and the employment relations.

While trade unions' only ambition seems to be to put in place framework conditions that serve the advantage of employees they leave employers a wide room of action to actually set the conditions and terms of employment for individual employees and engage in informal individual bargaining; this, however, inhibits the development of an automatic solidarity between employees. Just in contrast to the experience of Western European employees that the individual's situation can ameliorate only together with the situation of all, the Hungarian interest representation strategy makes it possible for the individual employee to improve his/her situation independently from others. The lack of automatic solidarity makes it very hard, if not impossible, for Hungarian trade unions to mobilise membership to back them up in confronting the company management. There is, however, another speciality of the Hungarian trade union strategy: to cooperate with the management as much as possible. This kind of workplace cooperation has its traditions: avoidance of open conflicts most often ensures the survival of trade unions even if meaningful bargaining with them is not a priority for company management. Curiously enough, the strategy of trying to improve framework conditions and protect the interests of small groups helps maintain cooperation even if the union is not too successful. After the negotiation round between the trade union and the management, there is a second round of bargaining between the employee and employer when final decisions are made. Unable to exercise any pressure, trade unions can only hope that under the circumstances of a shrinking labour market, companies will have to adopt internal strategies that rely on the loyalty of employees, and in order to reduce fluctuation they will involve trade unions in designing programs to better satisfy employees.

### *Conclusions*

Post-guild and post socialist trade unions understand very different things by structured employment relations. Post-guild trade unions tried to restrict the room for individual informal bargaining between the employee and employer as much as possible by regulating employment conditions through setting rigid rules, wage tariffs and drafting job descriptions. The “Japanisation” of company management and work organisation meant a serious challenge for the traditional union strategy interest representation. Flexible organisation of production, flexible wages rewarding personal performance and attitudes as well as flexible work schedules have become crucial from the company’s competitiveness. As a result of company level pressure, the regulation of conditions of work and employment has become more flexible over the past two decades in several aspects and sectoral collective agreements have lost some of their regulatory power. Western researchers of industrial relations often describe this process as an “organised retreat” in the course of which trade unions make temporary (at least they hope) concessions to the employer, the underlying idea being that by letting the employer flexibilise the trade union will be able to preserve jobs. In this situation, the primary function of sectoral collective agreements is to limit the flexibility of local bargaining and maintain the minimum of automatic solidarity in order to preserve trade unions’ ability to carry through demands that could not be settled at the company level using the tools of mobilising membership and of industrial action.

For post-socialist Hungarian trade unions structured employment relations implied the regulation of fundamental frameworks, primarily through company level collective agreements, but at the same time leaving considerable freedom for the employer to make unilateral decisions based on the evaluation of individual and group performance and for individual and small group informal bargaining outside the trade union. This interest representation approach recognises the right of the company management to raise individual wages on the basis of a variety of performance indices within the frames agreed on by the trade union.

This trade union approach seemingly meets the flexibility ideas of company management as this kind of interest representation behaviour gives in to the company’s flexibility demands. The everyday experience, however, is that companies often find this flexible “framework regulation” approach too rigid and refuse trade unions’ demand to guarantee certain employment conditions. In fact, much depends on the personal behaviour of company managers, on external constraints – set by market competition and/or the company headquarters – i.e. on how much a bilateral regulation, founded on bargaining, can be developed or maintained. It happens quite often that the company management does not accept even the minimal constraints imposed by trade unions and

tries to marginalise existing trade unions and makes it impossible for union activists to operate and eventually drives them out of the company.

The steady loss of union membership in the business sector, however, suggests that trade unions might be wrong to hope that in a shrinking labour market companies will become interested in developing strategies based on the loyalty of employees and in order to reduce fluctuation they will involve trade unions in designing programs to increase employees' satisfaction.

## 4. LATEST DEVELOPMENTS IN WORK PLACE LEVEL REPRESENTATION

### 4.1 Employee Participation in the Hungarian Practice

BÉLA BENYÓ – LÁSZLÓ NEUMANN – MELINDA KELEMEN

The term “employee representation” may embrace a variety of industrial relations institutions and human-resource management techniques, the common feature of which is giving employees the chance to have a say in, or to control, the labour process, as well as the decision making of company management and, occasionally, the decision making of the owner. Accordingly, participation institutes range from shop-floor level participation up to involvement in the company decision-making mechanism and even to financial participation, including employee ownership. This subsection deals with only one type of institution, the one which has already been introduced in Hungary: the *works council* and its special version in the case of multinational companies: the *European Works Council (EWC)*.

Although there were earlier precedents of employee participation in Hungary, institutions similar to those common in developed market economies could only be established following the regime change. At that time the new Labour Code (Act XXII. of 1992) introduced works councils. The circumstances under which labour law was formed, and the legal-sociological contradictions of the new work-place level representation system, have been extensively discussed. (Kiss 1995; Prugberger 2002; Tóth 1997, 2000; Tóth–Ghellab 2003). According to the incumbent government in 1990–94, the presence of a representation channel, independent of trade union membership, and elected by every employee, was justified by the problems of emerging trade union pluralism and shrinking union density. Furthermore, the government, departing from the German model of industrial relations, wished to separate collective bargaining to be concluded at the sectoral level from work-place level representation exclusively practised by works councils. Since trade unions were strongly against the proposal which they perceived as jeopardising their role in the work-place, the compromise forged at the National Interest Reconciliation Council preserved the unions’ right to conclude collective agreements at company level, and trade unions – though in a limited form – were allowed to keep their participation rights which they had formally practised under the socialist regime.



The legal authorization of Hungarian works councils is limited compared to that of their German counterparts: co-determination is confined to company social welfare policy, in turn works councils are strongly tied to company trade unions due to the stipulations of the law. Trade unions are strongly motivated to ensure seats in the works councils for their own nominees, as their representativeness, i.e. the right to negotiate and conclude a collective agreement, is dependent on it. At the same time, the works council's co-determination right is restricted to the use of the "social fund" which is stipulated by the collective agreement concluded by the trade union. The election of the works council, though not necessarily its meaningful operation, is very important for the trade union in this system. Although the law obliges companies to set up works councils, there are no effective guarantees as to its enforcement. Thus at many work places where there is no trade union (characteristically in small-, and medium sized companies), works councils will also not be established.

As sectoral level collective agreements – contrary to the German model – have not become significantly powerful to set wages, hours, or terms and conditions of employment, a dual-channel system has evolved in which workplace level representation is duplicated. Therefore both employers and trade unions tend to consider works councils unnecessary institutions, if not harmful outright. At the same time the alternating governments, partly from political considerations, successively amended the law on workplace level representation: at one time the works council was given more power and even the right to conclude collective agreements, while at another time the rights of company trade unions were strengthened at the expense of works councils' rights.

This subsection, instead of criticizing the legal approach, analyzes the role of works councils on the basis of a survey. Then, drawing on a series of case studies, it describes the situation of European Works Councils following EU accession, when Hungarian delegates became full members in the already existing EWCs, or when these consultation bodies were required to be set up in multinational companies headquartered in Hungary.<sup>80</sup>

### *Works Councils in company practice*

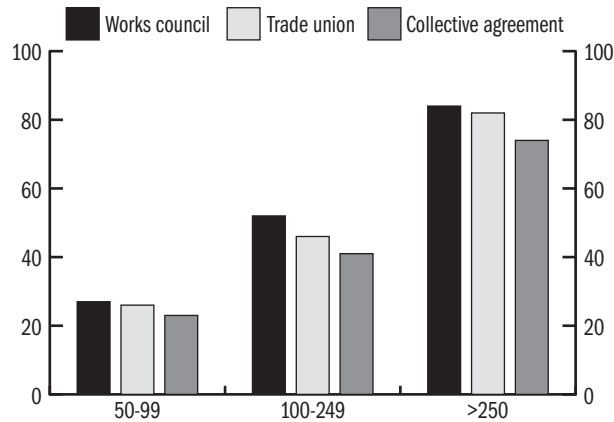
Over the decade following the establishment of the first works councils, the system of Hungarian work place level industrial relations has been significantly transformed. In 2003, at the time of our survey, about 49 per cent of companies with more than 50 employees had works councils. Previous international research revealed a number of factors that may affect participation through works councils, such as the company size. Experience shows that more efficient participation forms develop in companies with a larger workforce.

The Hungarian practice is in accord with this observation, moreover, works councils are more frequently found in larger companies than in smaller ones

80 The survey results are discussed in detail in Béla Benyó's PhD thesis: "The institution of employee participation: the state of the art of works councils in Hungary" (*Amunkavállalói részvétel intézménye: az üzemi tanácsok helyzete a mai Magyarországon*). The research on EWCs, supported by the European Commission, was carried out in the Czech Republic, Hungary and Poland, under the coordination of Wilke, Maack & Partner (WMP Unternehmensberatung, Hamburg), project leader: Eckhard Voss. The results presented in this study have not yet been published elsewhere.

(Figure 4.1.). At the same time, we can safely state that the penetration of works councils, trade unions and collective agreement significantly correlates with company size.

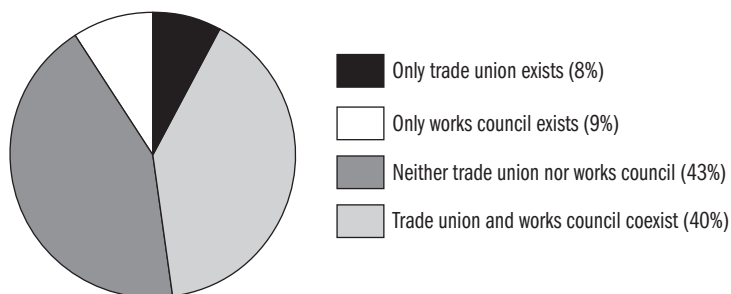
**Figure 4.1: Frequency of works councils, trade unions and collective agreements in firms (breakdown by the number of employees, per cent)**



It is also obvious that the emergence of participation institutions at a work place is also influenced by the form of ownership. The establishment of works councils is most common in state-owned firms, followed by local government-owned firms. The data available does not verify a previous assumption according to which foreign capital thwarts the spreading of works councils. Quite the contrary: based on the distribution of the origin of capital by country we can establish that fewer works councils operate in Hungarian-owned companies than in foreign-owned ones, although the difference is not significant: 52 per cent of the companies in exclusively foreign ownership have works councils, whereas the figure is only 46 per cent in the case of companies with exclusive Hungarian ownership. However, in the case of mixed ownership works councils can be found more frequently, and the proportions are only slightly different in the case of a foreign, or a Hungarian, majority in the ownership (59–58 per cent).

As far as the various factors are concerned, trade union presence is the most significant for the existence of Hungarian works councils: where there is no trade union at the workplace, there is also no works council (*Figure 4.2.*). With regard to the distribution of works councils, it has been proved that the correlation is fairly strong between the work place level presence of trade unions and works councils (level of significance:  $p = 0.00$ ,  $r^2 = 0.888$ ,  $\beta = 0.942$ ) at both company level, as well as at sectoral level.

**Figure 4.2: Distribution of works councils and trade unions in companies with over 50 employees**



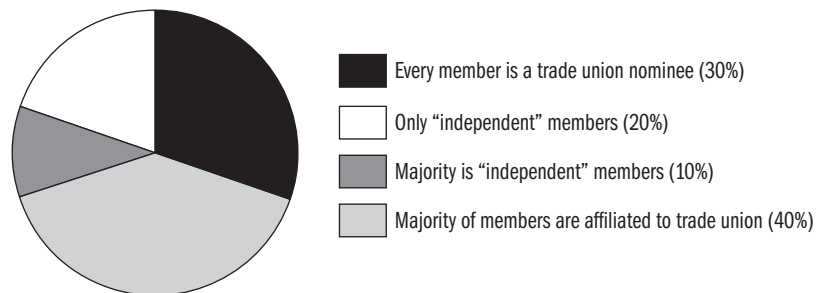
The reason for this is partly that both trade unions and works councils are more likely to be established in companies with more employees. Given the legal regulation on the representativeness of trade unions, it is not surprising that the more trade unions exist at a workplace, the more frequent are works councils. It is also notable that in the case of extreme union pluralism, with four or even more trade unions at a work-place, the frequency of works councils reaches 100 %.

In the beginning, some trade unions did not support the strengthening of the works councils' representation role and the broadening of their rights, claiming that these measures not only abridged the rights, but also curtailed the influence of trade unions. In the background there was obviously a Hungarian peculiarity at work: trade unions – regardless of their real influence – viewed works councils as rivals, a view which was also fuelled by a fear of legislation that might strengthen the works councils' rights. Today, however, the works councils' advantages have become apparent compared to the drawbacks they present: the value of works councils lies in the trade unions' access to additional information through the councils. Co-operation with the works council is not only an option but also a necessity. In the absence of trade union control, the new representation body may be a competitor to trade unions, works councils giving the employer the chance to use a legitimate alternative channel to unions. Trade union control over works councils is also underlined by studies on the composition of works councils. In 30 per cent of Hungarian works councils membership consists of only trade union members. In addition, 40 per cent of the councils are under a majority leadership of trade union members. In the remaining 30 per cent the majority, or all members, of works councils are independent of trade unions. (*Figure 4.3.*)

This interrelatedness and its acceptance are also supported by the fact that 60 per cent of all works council delegates answered negatively to our question about the independence of their works councils from trade unions. Further emphasis is given to the above statement by the fact that 85 per cent of the respondents hold that members delegated by trade unions give strength to

the body. The answers clearly show that influence is mainly exerted through members of works councils who were appointed by trade unions (35 %), then through personal overlaps (30 per cent), and finally, through the expertise and information that the trade union provides (15 per cent). Another sign of trade union dominance is that four times as many trade union leaders became presidents of works councils than the other way round, while respondents from trade unions hold that this happened five times as often. On top of this, works council members with a trade union affiliation are more active in the council's work than "independent" ones. All this confirms the fact that the role of trade unions members in works councils may strengthen local trade unions.

**Figure 4.3: Distribution of works councils by nomination of members**



It sometimes occurs in practice that trade unions compete for seats in the works councils, the negative effects of which are also supported by the opinions expressed by trade unionists. It can be established that the more trade unions operate at work place level, the more frequent are the conflicts between them. In the case of two trade unions, co-operation is more frequent than in the case of more trade unions, where the relation shifts to rivalry. Thus the unity or diversity of trade unions at the work-place level has significant effects on the institutionalization of workers representation.

Experience shows that a further consequence of the division between trade unions is that the employer, making use of the situation, more often chooses to negotiate with the works council more inclined to avoid conflict. This is supported by the observation that trade unions get into conflict with company management four times as often as works councils. The employer's preference is confirmed by the fact that works councils become better negotiation partners when they have fewer members with trade union affiliation.

Another fundamental feature of the operation of the Hungarian works council system is that works councils are simply unaware of their obligation as elected representatives to report to employees. Studies show that only one third of the employees display interest in the activity of the works councils. One possible reason for this is that feedback from works council meetings is

often missing. Informing employees is accidental, most often it is confined to works council members informing their immediate colleagues. An enquiry among employees prior to the meetings is very rare. At the same time it is obvious that works councils, as opposed to unions, do not have a well-established organizational structure to reach employees. Therefore it is natural that, where a trade union exists, the works council will use trade union channels for keeping in touch with employees. This will not help employees to distinguish between the roles of the trade union and the works council.

With regard to the documents provided for the works council meeting, 77 per cent of works council presidents reported that they do not receive satisfactory background materials. At the same time 75 per cent of works council members, 67 per cent of trade union leaders, and 84 per cent of the employers think that works councils receive documents in time. Holding back information usually happens with reference to business confidentiality, which is said to be frequent by 36 per cent of works council chairs. However, employers strive to ensure the rights prescribed in the law. It is not in their interest to act against the law, as the authorization of works councils is not strong enough to produce conflicts of interest. Close to one quarter of works council representatives claimed, that their employer often infringed upon their rights. It is the right to comment that is the most often abridged. It has to be noted too that the partners prefer to keep the conflict inside the company.

There are other factors affecting the success of the operation of works councils. Experience shows that active works councils can be recognized by the themes that dominate negotiations: usually the living and working conditions of employees. It is characteristic that social issues, in which the councils could have a decisive say, feature half as much in their consultations as financial matters, on which employers are “only” obliged to provide information. At the same time it can be assumed that in the majority of cases works councils do not have access to key information, therefore the cooperation of employers and works councils remains formal.

The practice of Hungarian works councils also highlights the need for stable financing and an independent budget in order to ensure a smooth operation for works councils. The reality is however quite different: only 19 per cent of works councils have a budget covering operational costs, as well as training and expert expenses. Reports state that 29 per cent of works councils do not have a say at all in planning the figures for these items in the company’s budget. In practice the financial independence of Hungarian representation institutions exists only in big companies, where a full-time status is ensured for the chairman.

The lack of an independent budget also places an obstacle to the training of works council members. Works councils and employers alike agree that the lack of training and skills is one of the biggest obstacles to performing tasks

in the works council. Deficiencies were detected mainly in legal, economic and financial matters, as well as in communication and negotiation skills. There is also a strong correlation between training and the success of working relations with the employer, as well as satisfaction with the rights. One explanation is that better trained employees are in a better position to use the opportunities laid down in the law and feel less fearful that legal conditions would hinder them in performing their tasks.

Despite the additional work that the establishment of a works council inflicts upon the employer, it has its advantages as well, since the presence of a new representation institution also extends room for manoeuvring. Employers often support the organizational independence of the works councils, since the emergence of a new representation channel is suitable to legitimate employers' decisions. Co-operation with the works council provides a new opportunity for those employers that are striving to avoid negotiations with the trade unions. This hypothesis seems to be supported by the marginal difference between the frequencies of works councils within foreign-, and Hungarian-owned workplaces (55 per cent and 52 per cent respectively). This is not the case with the presence of trade unions at the workplace level. In our survey we found that 75 per cent of Hungarian companies had trade union representation, while it was true only for 25 per cent of foreign businesses. Practice seems to confirm that employers not only support works councils as negotiating partners, but in most cases they even prefer them to trade unions.

In the majority of cases the employer can more easily find a common language with works councils. A possible explanation to this might be a greater loyalty of council members. If there are more "independent" representatives in the council, then it is more likely that the works council is more loyal, and at the same time, more dependent on the employer. In a situation where the employer often uses pressure tools to ensure decisions by the works councils which are preferable to the employer, then members tend to be more loyal toward the employer. With a trade union majority in the works council, the employer has less opportunity to exert pressure, therefore he will start negotiations with the trade union to bring about a resolution as soon as possible. Observations show that the smaller the works council, the greater loyalty it demonstrates toward the employer, therefore causing fewer problems for the employer.

Both employers and trade unions evaluate the role and success of works councils in the light of their own interests. It is of fundamental importance for the trade unions to keep their decisive role in the works councils. The majority of trade union leaders think that the works councils and trade unions "complement each other well" if there is a division of labour between them and in the event that they cooperate. Otherwise, they think, there is no need for the works council. For the employees, a multi-pillar representation sys-

tem, which leaves more space for manoeuvring, is more beneficial, and that is why they support “independent” works councils. Most employers consider cooperation with the works council useful, since the works council can act as a “buffer”, helping to minimize direct conflicts between employers and employees, as well as the acceptance of employer decisions. Trade unions and employers alike have a stake in the consolidation of the current situation, rather than the development of the institution. Works councils balance between these two forces but accept trade union influence for the sake of better negotiating positions.

*European Works Councils following Hungary’s accession to the European Union*

As is well-known, the 94/45 (EC) *Directive on EWCs* was passed in 1994 following a preparatory work of several decades, which was not lacking in political twists and turns. (Tóth 1999). As to its political goals, the Directive is similar to earlier recommendations by various international organizations (ILO, OECD) concerning the “conduct” of multinational companies, which are intended to mitigate the harmful labour consequences of globalization (the intense competition of regulation regimes and the corollary deterioration of working conditions, the relocation of work places, etc.). The EU Directive, however, went further: instead of creating another code of ethics, it laid down the legal frameworks of a brand new transnational representation institution. With the help of this a new institution, similar to the customary works councils on continental Europe, was built into the preparatory phase of global strategic decision-making in the headquarters of international companies. It also gave employees, working in the subsidiaries in various countries, rights on information and consultation. Former EU member states were obliged to transpose the Directive by September 22, 1996. The transitional regulation, however, allowed for the recognition of the already existing international forums with similar functions as EWCs, and made possible the institutionalization of the system of information and consultation, instead of the establishment of a new representation channel. It is important that – with regard to the different compositions of works councils in each country and the difference in their rights – the Directive does not define in detail the rules on the setting up, the composition and the operation of works councils. These are determined individually for every company in preparation for the EWC in the course of negotiations between company management and a *special negotiating body* elected in establishments in the various countries.

Prior to Hungary joining the EU, representatives of employees, working in Hungarian plants of Europe-based multinational companies, could take part in sessions only if the Western European EWC “voluntarily” invited them (Neumann 1999). According to the 2002 data of the European Trade Union



Institute (ETUI), there were 114 multinational companies with Hungarian sites where European works councils were set up. It was, however, only in 23 cases that the representatives of Hungarian employees were invited to the EWC meeting, in which they could participate as “observers”.

New member states, including Hungary, were required to adopt national laws, measures, and possibly collective agreements, ensuring the implementation of the Directive, by the time of their accession. Following a consultation held at the National Interest Reconciliation Council, Act XXI of 2003, the transposition of the Directive came into force at the same time as Hungary’s EU accession. The law follows the European Directive in regulating the establishment of an EWC operating beside a Hungarian headquarters of a multinational company. The scope of the Hungarian transposition is practically restricted to the following questions: the composition and operation of the special negotiating body in the event that the company headquarters are in Hungary; the selection method of the members of the special negotiating body and of the EWC, representing Hungarian employees; confidentiality issues; the protection of Hungarian representatives; the sanctioning of unlawful conduct; and, in the situation where no EWC is set up, the equivalent rules to be used on access to information and on consultation. The Hungarian regulations follow the German example in the first place, which is why the most problematic issues of the regulations are the selection of the members of the EWC and the Special Negotiating Body, representing Hungarian employees. According to the law, their appointment lies exclusively with the works council, or, wherever it exists, the *central works council*. In the absence of a works council, the law orders the selection of the members through a direct election process. The Hungarian workplace representation system, however, is a dual-channel representation system, as opposed to the German one: beside the works councils, there are also company trade unions operating in the work places, which are very often more influential and better known than works councils. In the case of a dual-channel representation system, the laws make it possible for both bodies to have a say in the selection of the members, and direct election is only prescribed if none of the two types of representation systems operates in the given work place. Another problematic area of the transposition is the election of representatives in the situation where the given multinational company has several subsidiaries in Hungary. In this case the law stipulates the cooperation of the (central) works councils of the individual companies and their appointed delegates. It does not stipulate, however, that all employees, working in every subsidiary of the company, must be provided with representation, and it does not lay down – contrary to the German law – which central works council is responsible for convening the joint body (Tóth–Neumann 2003; Prugberger 2003).

Hungary's EU accession therefore inflicted two kinds of duties on the top management and representation system of multinational companies: on the one hand, a new institution had to be established within the few multinational companies, headquartered in Hungary, in the situation where the company has sites in at least two EU member states with 100 employees as a minimum in each state. On the other hand, Hungarian employee representatives have to be ensured and, according to the law, have to be delegated in those foreign companies headquartered outside Hungary, where an EWC had already existed, or in those that reach the above quoted threshold as a result of the enlargement of the EU. The latter one is obviously a great challenge for works councils operating in foreign company headquarters, or for EWCs to be established as well, since they have to reshape their internal regulations so that they are able to include members from the new member states who have also become full members. It has to be noted, however, that, similar to the law on the setting up of Hungarian works councils, the failure to implement the Directive on EWCs cannot really be sanctioned either (that is the reason why only half of the Western European companies under the provisions of the Directive set up EWCs, or a consultation system equivalent to that). Moreover, there is no timeline, set by the EU, for carrying out the duties listed here, arising from EU Accession.

We looked at company case studies to see how the workplace representation channels of companies in former and new member states, which are under the provisions of the Directive, responded to the challenge of EU enlargement. In our sample two of the ten companies had a stable financial background and a workforce which had their headquarters in Hungary: MOL and General Electric.<sup>81</sup> The main characteristics and indicators for industrial relations of these companies are demonstrated on *Table 4.1*.

**Table 4.1: Company sample of EWC research**

Sector	Number of employees in Hungary	Country of headquarter (owner)	Greenfield?	TU	Works Council	Collective agreement
Machine tool industry	400	France	No	+	+	+
Car components	1 600	Germany	Yes	-	+	-
Pharmaceuticals	2 200	France	No	++	+	++
Electronics	5 000	Finland	Yes	+	+	-
Car components	1 200	Germany	Yes	+	+	-
Oil and gas	11 800	Hungary	No	++	+	+
Electric	14 000	Hungary (USA)	No	++	+	+
Rubber	1 900	France	No	++	+	++
Electronics	3 300	Finland	Yes	++	+	+
Car components	550	Germany	No	+	+	-

++: the trade union has a fairly strong influence / joint occurrence of sectorial and company collective agreement

+: exists

-: does not exist

81 Altogether 10 case studies were made in the last months of 2004, partly in the machine-, partly in the chemical industry. From the research material only the findings on Hungarian industrial relations, as well as the establishment and operation of EWCs, are presented in this paper.

As trade union federations helped with the selection of companies for the sample, it is likely that we got in touch with companies with a trade union stronger than the average, and with more developed industrial relations. Among the trade union leaders there were both cadres “inherited” from the previous state owned socialist company, as well as enthusiastic young people mainly from greenfield-investments, who, enjoying the support of the sectoral trade union, stepped up as fierce representatives of interests. It is notable that, even in such a sample, no collective agreement could be concluded in four out of the ten companies, while sectoral agreements were in force in only two cases. The dominance of the trade union prevailed in every works council, except of course in the case of the only company in the sample without one. The two organizations formed a symbiotic relationship, as it were, and in the case of one company, this close relationship was attributed, with some pride, to a deliberate trade union policy. Following the EU accession, the delegation of new full-members into EWCs operating beside the company headquarters of the parent company, was smoother in companies that previously had Hungarian observers. In this case the problem arose from the necessity to alter the distribution of EWC seats among countries, which resulted in the receding of the smaller Western European sites. International co-operation of sectoral trade unions could be of help in organizing the EWC representation in the case of companies where this was a novelty and where Hungarian representation bodies did not even have a connection with the respective institutions of the parent company and mobilization of the interest representation channels would have been the responsibility of the Hungarian managers.<sup>82</sup>

82 For instance, the Bavarian section of IG Metall made an attempt to stage a joint action with the Hungarian Vasasszakszervezet to promote cooperation among the respective company level representation bodies. Despite such efforts, a fierce conflict can still break out between Eastern and Western representatives concerning the distribution of seats, influencing the decision making on the relocation of jobs was at stake. (See the case study in the Annex) There was only one case, in which the company was supposed to establish an EWC due to the EU enlargement, but it did not happen, as in the meantime the company decided to transform itself into a European Company (SE), which requires a completely different institutional setup for employee representation at multinational level.

Knowing the problems concerning the transposition of EU regulations into the Hungarian legal system, it is no surprise that in practice the delegation of representatives does not follow the logic of the legal regulations. Although the criterion that members must be appointed by the works council or the central works council was formally met almost everywhere, there was a general effort to ensure a stronger legitimacy for the representatives of Hungarian employees. It is characteristic that several representation bodies, in the same way as the company management in many cases, misinterpreted the text, as a result of which they were convinced that delegates must be elected directly by the employees (the law stipulates such an election method only in the situation where there is no (central) works council at the given work place). Trade union leaders also played an active role in the selection process either directly, or through their members in the works council. It is hardly a surprise that in the case of each larger company, the delegated EWC members are from the most influential/strongest trade union leaders, at least in part. (*Table 4.2.*), It was in exceptional cases that language skills or economic expertise were crucial criteria.

Table 4.2: Ways of representation in European Works Councils of Hungarian employees

Sector	Year of the establishment of European Works Councils	When were the Hungarian delegates invited?	The Hungarian delegate's status before 2004	Did he/she have full membership?	Selection method in Hungary
Machine building	2000	2004	-	Yes	Voting for works council nominees
Car components	1998	2000	Observer	In progress	Delegation of works councils members
Pharmacy	Before 1996 *	2002	Observer	In progress	Joint decision of the trade union and works council
Electronics	No data	2003	Observer	Yes	Delegation of works councils members
Car components works council	1996	2003	No participation	Yes	Joint decision of trade union and
Oil and gas	2004	2004	-	Yes	Delegation of central works council member
Electric	2004	2004	-	Yes	Delegation of central works council member
Rubber	1999	2002	Observer	Yes	Decision of central works council
Electronics	Only SNB established	-	-	-	-
Car components	No data*	2002	-	-	Delegation of works council member

\* Information and consultation forum/method equivalent to European works council.

At the same time the representation of employees working in smaller subsidiaries of the parent company, or in ones without a trade union or workers council, remained unresolved. Meanwhile representatives of the largest sites were duly delegated and received by the parent company while the attempt to involve employees from other divisions in the nomination of EWC members did not always succeed. The reason behind this is practically the lack of horizontal connection between the companies in Hungary.<sup>83</sup> Interestingly enough, this deficiency was not really dealt with by EWCs of the parent company, even though thorough investigations preceded the reception of Eastern European nominees. It is true though that these investigations in the case of the “Easterners” are motivated by the suspicion that in reality they might not be employee representatives but nominees or members of the management, as was often the case, evidenced by our research abroad.

Hungarian representatives delegated to the EWCs had mixed impressions. In most cases they were satisfied with technical conditions and with the financial support from the parent company. Occasionally they encountered deficiencies too (such as the lack of a translation service for them), or felt that they experienced offensive treatment from the incumbent members. Among more serious problems were listed the rigid regulations, the overly formal way of information provision and the frequent reference to business confidentiality. Representatives thought that despite ample reporting, they received little new information at the sessions, and felt that the bodies had a minor influence on strategic decisions such as shut-down or the relocation of plants. We

83 The German firm in the machine building industry was an extreme example of this: it established 11 subsidiaries in 6 different settlements, and only the works council at the biggest plant could delegate a representative to the EWC.

can assume, however, that Hungarian representatives are not always open to relevant complaints by their Western colleagues, since in the case of most companies, and with the company relocations in progress, Hungary seems to be in a winning position. The possibility to build connections, and to become acquainted with the living and working conditions of their colleagues abroad, were mentioned as a positive aspect of membership in the EWC.

MOL was the only real Hungarian multinational company in our sample, where the EWC was set up in June 2004 following a seven-month preparatory period. MOL's industrial relations are characterized by a close co-operation between representation bodies and company management: there are three representative trade unions and four works councils within the Hungarian parent company, furthermore there is a collective agreement in force which provides significant benefits for employees. The composition of the EWC was determined in the agreement of MOL and the Special Negotiating Body, according to which there are eighteen full members and two observers in the council. Thus, in addition to the six Hungarian and three Slovak members, every EU-country with MOL subsidiaries can send representatives; while Croatia and Romania are entitled to send observers. Future EWC members were elected by voting in advance as well as at the extended session of MOL's central works council; in Slovakia it was the Chemists' Trade Union that organized nominations and the election. In the other EU countries delegates were elected directly by the employees at the written request of the central management. According to the agreement the EWC was created for three years. The by-law prescribes at least one meeting per year at a previously defined time and with a previously defined agenda agreed a month prior to the planned date of the meeting, with the coordination of the president of the EWC. The chairman of the EWC became the chairman for the Hungarian central works council and the largest representative trade union as well.

In conclusion, the results of our research seem to coincide with those concerning Hungarian works councils: here too trade union support is key, as well as solidarity both within local companies and among international trade unions, which is able to mitigate the conflicts arising from economic competition among workers employed by the multinational company in various countries. The experience and the network that Hungarian representatives can build through participation in the EWC are undoubtedly useful and perhaps the skills gained will also sooner or later be utilized in domestic consultation processes.

## Appendix: European Works Council in GE Hungary Ltd.

GE has integrated Tungsram in 1989 through privatisation. Tungsram, one of the largest industrial companies in Hungary with several plants in Budapest and in the countryside, produced bulb- and vacuum technique machines. The company was called GE Lighting until 2002, but its activity field is wider thanks to buying companies and green field investment.

During recent years GE carried out a significant global organizational re-alignment. At first, GE relocated the European centre of GE Lighting from London to Budapest in 2002, and then on 1st January 2004, due to a merger with Power Controls business divisions, a new company was established with the name "Consumer & Industrial". GE Consumer & Industrial produces and distributes low-voltage home appliances and integrated industrial equipment systems, lighting products and home electronics. As of 2004, Budapest gives a home to the European, Middle-Eastern, Indian and African centres of GE Consumer & Industrial (sc. EMEA region). The company employs nearly 75,000 people globally, of which 22,000 people are employed in Europe, most of them (14,000) working in Hungary.

At present practically all the Hungarian GE companies are registered as one corporation, under the name GE Hungary Ltd. It belongs to the global GE company and includes business units which belong to 4 different production divisions and 1 financial division of GE. These are as follows: GE Consumer & Industrial (which produces and distributes low-voltage home appliances and integrated industrial equipment systems, lighting products and home electronics), GE Transportation (aircraft engine services), GE Energy (manufacturing power systems) and GE Healthcare (manufacturing medical instruments). The relevant financial division is called GE Hungary European Operation Services. At the same time, Budapest Bank which has 1.600 employees, and which is owned by GE Consumer Finance, is not part of GE Hungary Rt.

There are works councils and mostly trade unions everywhere at the companies of GE Hungary Ltd. Within the GE Lighting units, there are 3 trade unions, 2 out of 3 are representative organizations (Tungsram Dolgozók Független Szakszervezete – TDFSZ and Nagykanizsai Fényforrásgyár Demokratikus Szakszervezete). In the case of certain green-

field invested manufactory (e.g. Ózd) there are no trade unions at all. The union density is about 70 per cent at the company level. On the national level all the three trade unions belong to the LIGA Trade Union. However, none of them is a member of EMF, the sectorial representation of interests of the metal sector at the European level.

Works councils exist from 1993 at GE. In the case of units within the Consumer & Industrial division it means practically 15 local WCs, on the top there is a 13-strong CWC, the members of which come from the works council membership of the previous Tungsram companies. As the 13 strong CWC does not cover every area of the newly established division, and since there is no representative from every manufactory, its enlargement is therefore one of the actual tasks of the CWC. The next election of works council's members was due in November, 2004.

There has always been a Collective Agreement in the history of GE, which is discussed and agreed upon by the management and the above-mentioned 3 trade unions. (As GE Hungary Ltd. is only one company legally, the representation of interests of other business divisions with no trade union, and that of the company's workers, is provided by the representative trade unions regardless of the relatively significant independence of GE business divisions.) The CA has 3 levels. Although, the general part of the CA is relevant to every GE employee, it does not contain details on wages and social allowances. There is a separate "Appendix for Divisions" referring to the former GE Lighting and Power Controls. Beside this, there are also appendixes for factories and enclosures with regard to this business division.

Based on the opinion of the parties concerned, the relationship between trade union and management is regulated and is correct. In addition, there exists a reconciliation annual work plan as well. Bearing in mind that wages are raised from the 1 January of each year wage negotiations start in November and last for a few weeks. Wage bargaining refers to the percentage of increase of the basic salary.

Centrally the CWC and the trade unions operate as a dual-channel system, in compliance with the law, although the CWC and trade unions sometimes jointly negotiate with the management.



The trade union is more accepted by the majority of employers as a “real” interest representation organization. Where a decision is called for even the management takes into prior consideration the trade union’s reaction.

Before the re-organization in 2003 there was no European works council in GE and the establishment of GE EWC was determined by the ongoing reorganization of GE’s certain European business units and the upcoming accession of New Member States (e.g. Poland and Hungary, where GE companies did operate) on May 1, 2004. In the beginning the establishment of EWC was initiated by the “Western-European” trade unions of the former Power Controls division, in 2003. This initiative was declined by the management of the company, but then the management changed its mind. The German-born European HR Manager was eager to set up a European consultation panel. The negotiations on setting up the EWC started between the Power Controls (which was then headquartered in Barcelona, Spain) and a special negotiating body which represented the trade unions of the “old” Member States.

Meanwhile the above-mentioned HR manager became the HR manager of the new Consumer & Industrial divisions, and the ongoing negotiations concerned a totally new division. At the same time, the Hungarian and Polish employee representatives were left out of negotiations, very likely because these countries were not EU members at the time. The new EWC was established in Barcelona on the last working day before the EU enlargement, the deed of foundation dated on Friday, April 28, 2004. Since the headquarters of the company was in Barcelona at the time and the EWC was established in Spain the relevant Spanish regulation was authoritative for the establishment, the composition and the operation of EWC. The GE EWC has been established by the delegates of the following 7 countries: Spain, Portugal, France, Belgium, the Netherlands, Germany, Italy, and the UK. A delegate of an Italian GE plant became the president of the EWC. According to the “Agreement” signed by the SNB, there is one delegate from every country, and additional delegates can be appointed from those countries where 50, or 25 per cent, of the total number of employees are. Based on this, employees of the above mentioned member states delegated 1–1 person to the EWC. With regard

to new Member States the rule is that they get 2 seats if at least 25 per cent of the total workforce is employed in the new Member States, while the employees are allowed to delegate 3 persons if at least 50 per cent of the total workforce is employed in them. According to this, the current EWC is 11 strong. Every country delegates 1 person, except Hungary, which the “Agreement” enables to delegate 3 persons to the body. By right of the Agreement the EWC holds a meeting once a year, but the agreement does not specify the place.

Already prior to accession to the EU the Hungarian trade union notified the management of its intention to start the procedures to establish an EWC after 1st May, 2004. As we pointed out earlier, the TDFSZ had no idea that in the meantime the trade unions in the old Member States had already begun the setting up of an EWC. They did not receive any information whatsoever from the partner trade unions concerning this.

Therefore it came as a huge surprise to the representatives of Hungarian employees that the Italian president of the EWC offered 3 seats in the council for Hungarian delegates and invited them to the first meeting planned to be held in Budapest, June, 2004. The EWC was established so that the Hungarian and Polish trade unions (which represent 2/3 of the employees of the division) were totally left out of the preparatory negotiations. The second reason for their astonishment was that the establishment of the EWC took place right on the last working day before Poland and Hungary joined the EU. On top of all this, the European centre for Consumer and Industrial moved from Barcelona to Budapest on April, 28, 2004. The representatives of Hungarian employees claimed that, with the European headquarters of the company being in Budapest, the EWC should have been established with the involvement of the representatives of Hungarian and Polish employees, and in compliance with Hungarian law. It should be pointed out here that according to the Hungarian transposition law, 5 seats should be offered for the representatives of Hungarian employees.

After the trade unions and the Hungarian CWC became aware of the existence of the EWC, the Hungarian members were delegated according to the law, on July 22. The central works council, at a joint meeting with delegates from other divisions, nominated 3



persons out of its own members. One delegate is the president of the CWC, and the other two are members of the two representative trade unions.

The representatives of Hungarian employees drafted a memorandum for the EWC meeting on 8–10 October, addressing the employee side of the EWC. In this memo they called for an EWC initiative to modify the agreement concluded by the SNB. The central point of the modification was the increase of the number of Hungarian representatives in the EWC to 5 during 2005. Nevertheless, the proposal was rejected by the president of the EWC at the meetings of the employee party, on the grounds that the modification would not be reasonable before 2007, i.e. as long as the mandate of the current EWC, and Agreement, are in effect. However the representatives of Hungarian employees announced that the EWC president's standpoint is not acceptable to them and they presented their proposal of modification to the management at the official meeting of the EWC on October 8, 2004.

At the plenary meeting, the delegates first listened to the presentation of the Chief Executive of the company about the strategic plans of the company, the expected changes in numbers employed, and about organizational changes. (Since all the information quoted here has been classified as confidential on the basis of the Agreement, the information from the EWC meetings will not come to the employees' knowledge).

Following this, the representatives of the Hungarian employees officially presented their request of modification of the EWC Agreement. On behalf of the management, the chief executive of the company stated his case in relation to the modification, explaining that if the employee side of the EWC agrees on this issue, the management will not oppose the modification.

After the EWC plenary meeting, another employee conciliation meeting was held, but the points of view still differed. At the meeting the French, Portuguese, Spanish, Belgian, and Italian representatives of employees unanimously refused the Hungarian proposal, while the Polish supported it. Other members of the EWC abstained.

At the end of the meeting the president of the EWC came forward with a conciliatory proposal offering

an additional seat for the Hungarians, which the representatives of Hungarian employees rejected. Finally, with the excuse of the absence of the German trade union and an EMF expert, the discussion of the Hungarian proposal for the modification of EWC composition was deferred until the next meeting in December.

Eventually, in December, 2004, the story took a positive turn. The Hungarian representatives of interests received a letter from the Italian president of the EWC, offering the following: five seats will be allocated for delegates of Hungarian representatives and an additional seat will be offered in the invariably 3-strong secretariats. At the same time the president also offered 1 place for the Hungarians in the delegation appointed to re-negotiate the relevant point of the contract. The Hungarian trade union and CWC regarded the offer as a fair solution and it is expected to be officially accepted at the next meeting of the European works council.

One explanation for the conflicts about the distribution of seats among new and old Member States might be that the merger of the 3 divisions may mark the beginning of a European-scale reorganization process. This process is likely to bring along the relocation of further workplaces to the new Member States. In this light it is understandable that the representatives of those workplaces that are jeopardized wish to ensure that their words are decisive in the EWC in the coming years. At the same time, according to the Hungarian representatives' standpoint, the real danger for the European workplaces is China. As Hungary is the European country with the most significant mass production, therefore Hungary calls for a representation of appropriate volume in order to be able to defend the jobs of Hungarian employees.

Preventing the conflict regarding the number of the Hungarian delegates would have required the active involvement of the EMF, even though the Hungarian trade unions of GE are not yet members of the European trade federation.

(The source of the above information on the conflict related to the European works council is the Hungarian employee representatives. Owing to the research methodology, we were not able to get in touch directly with those members of the European works council representing other countries. However, we used the interviews of Guglielmo Meardi and András Tóth which were conducted for another research.)

## 4.2 Informal Wage and Performance Bargaining and Changes in Human Resources Management in Hungarian Companies

LAJOS BÓDIS

### *Introduction*

While in developed market economies one of the traditional strengths of large companies is predictable operation, they currently face a new challenge: improve their adaptability to the changing economic environment. To be able to do so they encourage their employees' versatility and innovation but at the same time introduce new forms of control to reduce employees' possibilities of monopolising skills – and the resulting greater bargaining power (*Baudry* 1998). In contrast, socialist enterprises worked very flexibly but unpredictably. Some of the workers learnt to do several tasks, were active in the field of technological innovations and were highly interested in organisational matters. In fact, the enterprises could not do without these workers for under the conditions of shortage economy the normal conditions of work were often missing and the management bothered much less than their Western counterparts to harmonise the various activities at a high cost. At socialist enterprises, the participants of the wage and performance bargain were workers in key position with firm specific knowledge and their direct superiors rather than the trade union and the top management (*Kemény* 1972, 1990*b*, 1990*c*; *Héthy–Makó*, 1972, 1978; *Fazekas* 1982; *Köllő* 1982; *Kertesi–Szirácski* 1983; *Neumann* 1988; *Stark* 1988; *Gábor R.* 1997).

Western management ideas introduced in the 90s in Hungary mostly meant centralising bureaucratic measures designed to strengthen management control, which was quite unusual for employees. At the same time, employees' versatility, knowledge in broad areas of company activities and interest in company affairs developed under the dire necessities of the socialist enterprise are valuable assets for post-socialist companies, too. Western-style flexibilisation and centralisation in Hungarian companies in the 90s thus are not mutually exclusive human resources management philosophies. Post-socialist companies had to take "one step back" to be able to operate more predictably and reliably. This was a precondition to apply modern management methods that encourage and make use of the versatile experience and initiative of employees, which will then make it possible for Hungarian enterprises to take as many as "two steps forward" in flexibilising.<sup>84</sup> In other words, what one time socialist enterprises and current work organisation share is the encouragement of employee initiative and what they are different in is the efficiency of control.

Are Hungarian employees willing to initiate and assume responsibility if the management systematically tries to limit bargaining? If innovations were introduced without the overhaul of the organisations and fully understanding the interrelations of management procedures, could it happen that the em-

84 A similar dual learning process is found in mixed ownership companies in Hungary *Szabó–Kocsis* (2003). Without careful research, however, currently this can only be regarded as a possibility.

ployers' costs considerably grew while employees could retain their bargaining power? Or, through a trial and error approach and careful evaluation of experience, could some of the companies create a balance between employee autonomy and employer control that suits both parties and is equally different both from the legacy of the socialist organisation and Western models? While in the 70s and 80s several case studies were made at companies, today's research efforts have largely neglected these issues and have failed to answer any of these questions.<sup>85</sup>

Firstly, we will present the main goals and procedures of human resources management at modern large companies that are a crucial factor in industrial relations and create the frames of the workplace wage and performance bargaining; then we will attempt to draw conclusions on the basis of sporadic empirical research and outline a conceptual framework to interpret the interrelations of innovations in the work organisation and workplace bargaining.

### *The main goals of human resources management at the modern large company*<sup>86</sup>

Human resources management at large companies in developed market economies primarily serves the predictability of operations and therefore mostly relies on impersonal procedures. At the same time, however, over the past one and a half or two decades a somewhat contradicting requirement has become increasingly important: adaptation to the changes of the economic environment and increasing organisational flexibility (OECD 1999).

*Job design.* A job is a specific collection of tasks, responsibilities and decision making competence that uniformly applies to a group of employees in a given organisation. Management efficiency largely depends on an exact description of the content of jobs designed impersonally and the systematic monitoring of spontaneous changes. Individual differences are important mostly at the beginning of the employment relationship, at the time of selecting the candidate who fits the best the specified requirements. At the same time, over the past fifteen or twenty years, the differences between employees in terms of performance and needs have become more important in employers' decisions on reward and promotion. The kind of human resources management which takes into consideration the potentially exploitable elements of human capital tries to harmonise reliability guaranteed through job requirements which apply to all and flexibility provided by developing and exploiting individual capabilities. Job related procedures, however, continue to play a crucial role in large Western companies.

Organisations with heavily specialised and exactly delineated jobs can produce not too complex products on a mass scale cheaply, predictably and with permanent quality parameters. In a changing environment – with frequent switches between small and medium series production – their operation can

85 The meagre analytical literature on the division of labour in the 1990s appears to have abandoned the field of wage and performance bargaining that earlier had been widely researched. One of the few exceptions is the analysis by Fazekas and Köllő (1998), which examines – primarily with statistical methods – the sources of income generated after the change of the regime at companies that had been researched two decades before (Fazekas 1982; Köllő 1982); and a case study by Bódis (2003), based primarily on interviews and observation of the rules of distributing the organisation's income.

86 There are hardly any empirical studies or deep analytical case studies on the penetration and impact of modern human resources management procedures in Hungary (Bokor 2000; Gelei 2002; Takács 2000). Questionnaire surveys are usually made on a small and not random sample and provide little information on issues that influence informal workplace bargaining. However, several research projects have concentrated on the organisational position of human resources managers and on the recognition of this professional field. Hungarian research efforts in the area of company finances using representative samples focus only on performance assessment of the several methods of human resources management (Arccal a... 1999, Fókuszban a... 2004).

be halting (*Aoki* 1984). In this situation, typical nowadays, one of the most important tasks of human resources management is to increase employees' mobility across jobs. Case studies on socialist plants highlighted on the one hand the imperfections in technology and in the description of tasks and on the other hand the versatility and bargaining power of elite workers. A questionnaire survey in the mid 90s, however, found that the jobs at two electronics companies were overspecialised by international standards (*Makó–Novoszáth–Veréb* 1998). Similarly, rigid division of labour resulting in inflexibility is described in a case study on a sewing mill, caused by an incompetent management and employees' efforts to secure positions in the organisation; in other words: by the management wanting to save the costs of coordinating production and by employees' influence activities (*Bódis* 2003).

Adaptation can be enhanced through the flexible adjusting of resources to the current needs of production or through the improvement of the adaptability of labour staying with the company in the long term. The first may involve a temporary or permanent cut in staff (and thereby of wage costs), reorganising work time, replacing work contracts with definite period contracts, using external suppliers, relocating production into a lower wage region and reducing training costs. The second involves the expansion of jobs, simplifying the organisational hierarchy, forecasting technological changes and the continuous retraining and further training of employees. Case studies on nine companies, different in size and activities, around Dunaújváros have revealed that the subject of informal workplace bargains most often is flexible adaptation, organising working time and division of tasks related to absence and peak production, and rarely training issues (*Makó–Simonyi* 2003b).

Greater mobility of employees across jobs is best implemented if the human resources management considers all of the various potentially exploitable elements of human capital that are needed to carry out the current tasks rather than if it gives job descriptions. In this concept, the starting point is that a product or service is the outcome not of a specific collection of tasks but the combination of various elements of human capital. The knowledge, expertise, abilities and skills of employees can be used in specific activities that are very different from each other. Job requirements do not depend only on technical and technological characteristics but also on how the total human capital needed to products and services is distributed among the various jobs. If the company is able to define on the one hand its human capital demand and on the other hand the human capital of the individual employees, it can create the channels of internal mobility that cut across the traditional career paths.

This model is founded on the detailed but not comprehensive description of task and requirements related to the job. Most experts in Hungary agree that companies pay much less attention that would be necessary to draft and regularly review job descriptions.<sup>87</sup> It is possible to manage human resources

87 See *Nemeskéri* (1999), (2003b); about public offices less exposed to changes in management methods *Bódis–Nagy* (2005), *Nemeskéri* (2003a), *Barta* (2003). Managers of companies participating in questionnaire surveys report the situation to be much better than what is experienced by experts and researchers. Four fifths of the companies in the sample of one of the research projects prepare job descriptions, two thirds of them not only formally but in a way that provides a proper foundation for several human management tasks (*Karoliny–Farkas–László* 2003). Similar shares were found in another research based on a sample of organisations in the competitive sphere applying performance assessment (*Karoliny* 2005). According to findings, four fifths of companies prepare the description of each of the jobs, two fifths use them for performance assessment, one fifth use them in other areas of human resources management as well while one fifth do not use them in any areas.

efficiently with superficial and obsolete job descriptions, or even without them (for instance, in the Japanese work organisation there are no sharp borderlines between the various jobs). If, however, Hungarian companies adopt Western procedures without thoroughly knowing and standardising the content of jobs, it is highly doubtful that adoption is worth its costs, and can even lead to serious disturbance in the operations of the organisation.

Job design is timely when technological or organisational changes are made or new activities or organisational units are introduced. With time, the content of each job may change spontaneously on the initiative of employees or direct managers. Job design involves job analysis, the monitoring and later institutionalisation of spontaneous changes or return to existing requirements.

*Screening and promotion.* Recruitment and selection are areas of human resources management in which Hungarian companies seem to have been able to break away the most from their socialist legacy and from the type of company management which is embedded in the network of personal relationships.<sup>88</sup> Procedures ensuring the connection between the market and the organisation had to adapt to the radical restructuring of the labour market; their adaptation probably was accelerated by hiring external consultants. Increasingly standardised recruitment and selection procedures were used in very different kinds of human resources management.

Over the years spent in employment, a large part of employees expand their knowledge as a result of which their earnings grow. One possibility is to accumulate knowledge in the given profession, which is marketable in the occupational labour market, mainly through changing employer. The other way is to enlarge firm specific knowledge, which is marketable through the set of rules on promotion and wage increase at the workplace and through the intermediation of the internal labour market (Gábor R. 1997).

As part of the knowledge which impacts employees' productivity is firm specific, the employer and the employee may be mutually interested in maintaining the employment relation and shut off labour market impacts. Some of the costs of training and orientation are paid only once (Oi 1962) and because of imperfect selection procedures, it is cheaper to acquire reliable information on the company's employees than on outside candidates. Therefore the majority of jobs at large companies are filled with insiders: employees, who have proven to be good are promoted, employees on a fix term contract are hired as permanent workers, agency workers become own staff. Employees can increase their wages mostly through climbing up in the job hierarchy.

*Setting wage tariffs through job evaluation.* If the measurement of performance by person and by task is difficult, wages can be set with the help of impersonal factors. The most widely used method is to put jobs into categories of pay ranges (wage scale categories) on the basis of the variables and requirements of employees. The success of the method depends on how much em-

<sup>88</sup> This is underpinned by Bokor *et al* (2005) in their research based on interviews with managers.



employees accept the procedure and the result of categorising as fair, how much they are afraid of losing their jobs or not getting promotion and higher wages if they do not score well in random inspections or regular evaluations partly based on subjective elements, and what are their alternative job opportunities. In countries with strong trade union traditions wage tariff systems are often agreed on in collective agreements.

Job evaluation is ranking jobs at the company in terms of their relative importance in order to put them in various pay ranges. Several large companies evaluate their complicated job structure by a complex score system; of these the most widespread is the procedure developed by Hay group. According to a survey, one fourth of 77 companies – mostly large ones – using performance evaluation use this kind of procedure, and one third of them use the Hay method (*Karoliny* 2005).<sup>89</sup> As the requirement of predictable cooperation permits only little differences in wages in comparable jobs at large companies, the result of the job evaluation may significantly influence the individual's wage. Generally, the desirable difference between the lowest and highest basic wages in the same category is not more than one and a half-fold, the difference being modified a little by bonuses and various fringe benefits. In contrast, differences in earnings in similar jobs were two or three fold at socialist companies, depending on the employees' willingness and ability to step up performance in general and to an extraordinary degree at peak production times or in face of contingency, and how aptly they bargained with workplace management (*Köllő* 1982; *Sziráczki* 1983).

The relationship between job evaluation and demand and supply is provided by salary surveys. Hiring consultants specialising in job evaluation approximates the methods and results of job evaluation carried out by various companies. Companies using job evaluation and participating in salary surveys can keep track of wages paid by other organisations for similar sets of tasks.

But does job evaluation meet the expectations? Or do companies only adopt foreign practices to do what top management requires them to do but eventually do not determine wages on this basis? This, in fact, depends on whether the company has managed to specify the tasks of a given job more accurately and better approximate the activities of persons in the same jobs than in the 1990s. Dissatisfaction and potential quittance of those employees who are able and willing to do peak work and untypical tasks may cause disturbances in the organisation if workers in the same jobs cannot really replace one another and if the management is unable to create the necessary conditions of work. If highly productive workers do not do the same tasks as less productive ones, the division of labour has to be refined and thus differentiation between wages becomes justified in the logic of job evaluation. Nevertheless, in some cases the wages of employees in nominally the same job were raised to at least the minimum level of the given pay range but it was

89 As few as 3 of the 77 interviewed companies said that their categorisation method takes into consideration the potentially exploitable elements of human capital.

not made clear whether the low wage was given because of weaker performance or unsuccessful informal bargaining. The standardisation of the wage system was not always accompanied – at least not immediately – with reducing differences in the productivity of various employees in the same job, firing weaker performing employees or putting them in a lower wage job.<sup>90</sup> At the same time, the wages of the highest productivity or best bargaining employees were not decreased, though they were not always put in a higher-wage job, either. With job evaluation, the wage-performance bargaining is not eliminated, only new forms and issues emerge. Evaluation is efficient if accepted by employees as fair and their representatives are involved in the procedure. This, in turn, makes it possible to bargain, formally and informally on the criteria of evaluation and their relative weights as well as on the categorisation of the various groups of jobs.<sup>91</sup>

The research on firms using performance evaluation gives information on the methods of setting basic wages, too. The majority of managers think that basic wages are primarily determined by the labour market and/or individual bargaining. Job evaluation plays a role in one fourth of companies, which reduces but does not exclude the effect of the factors mentioned first. Trade unions have an influence on basic wages in as few as one tenth of companies (Karoliny 2005).

Job evaluation can be regarded as a bureaucratic procedure in the internal labour market, and its importance tends to decrease in countries flexibilising their labour markets. The mechanism of setting wages through the internal labour market has given way to occupational labour markets in Hungary as well (Gábor R. 1997).<sup>92</sup> At the same time, the rules of preserved or newly created internal labour markets have become more formalised than before the 1990s, and, as mentioned earlier, bureaucratic regulation within the organisations of large companies has generally strengthened.

*Combining time rates with other wage guidelines and incentives.* As improving certain elements of human capital of employees enhances the flexibility and competitiveness of the company, it seems reasonable to set their wages in accordance with their potentially exploitable knowledge, expertise, capabilities and skills. In the 1990s, some large Western companies attempted to modify wage determination according to this logic, but its profitability was not guaranteed as wages were not connected to actual activities. Furthermore, it could create tensions between employees if in the given division of labour those who do jobs requiring more and different kinds of human capital earn significantly more than other employees doing the same activities. In practice, usually wage determination is based on a combination of potentially and actually exploited human capital. For instance, not all of the potentially exploited human capital of the employee is taken into account but only a part of it, such as the part used in the job over the past two years, and wages are

90 Given the inaccurate and obsolete job descriptions and irregularly and informally carried out performance evaluation, the management has to consider that in a potential labour law suit it will be difficult to prove that their act was lawful.

91 Conservative conjectures about specific empirical cases can be made on the basis of the following management and experts' reports Hiezl–Várbelyi (2000), Kelevéz (2003), Lindner (1998), Molnár (2003), Nemeskéri (2002). An illustration of the controversial expectations about job evaluation is the case, told by a manager in an interview, when a few years ago the Hungarian Post planned to standardise wages through job evaluation and a related time rate system. The wages would have been modified by multipliers and by fringe benefits to adjust them to the local conditions of work and labour markets; this, however, provides possibility for separate informal bargaining, too (Potykiewicz 2001).

92 The underlying factors are the greater decline in employment than in production in the 1990s, decreasing organisational size and stability and the loss of training workshops at companies.



regularly reviewed on this basis. Obviously, the recognition of the potential use of the various skills and knowledge and the identification of human capital demand of the various tasks can be subject to bargaining, and recording individually the work done involving a variety of different elements of human capital can significantly increase transaction costs.

While it seems advantageous for its short term costs, using exclusively pay for performance is neither possible nor desirable at modern large companies. The performance of a large part of tasks can be evaluated only on the basis of several parameters collectively, and replacing employees is very costly because of their specific knowledge that improves performance. Despite, socialist large companies used pay for performance in several jobs, mostly blue collar ones, as many of the managers thought that it was an efficient incentive. Because of labour market and organisational conditions, however, direct managers practically guaranteed the usual level of pay for performance for most of the employees through intensive bargaining with the top management and using tricks in measuring performance (see for instance *Fazekas* 1982). In the 1990s an important step of the restructuring that affected many jobs was the switch from pay for performance to wage tariffs and the cancelling of various kinds of bonuses that used to be a tool for the workplace management to differentiate between employees (*Neumann-Berkó-Tóth* 1993).<sup>93</sup>

Wages based on evaluating performance in a more indirect way and using subjective elements is applicable only in small organisations over which the managers have a clear view. To coordinate wage determination at larger organisations requires impersonal mechanisms for assigning tasks and evaluate performance on an essentially individual basis makes operation non-transparent and unpredictable – just as it has been observed in the partially restructured successor organisations of socialist enterprises. Categorising jobs by pay ranges, or determining wages on the basis of seniority can result in a stable and reliably performing labour force and calculable wages. At the same time, a modern large company needs the flexibility of wages. The tools of differentiating performances are: differentiating employees within the pay range category of the job, premium for outstanding performance in the short run and promotion for permanently outstanding performance.

An important issue in setting wages based on time rate categories is to define the size of the ranges and of overlaps. What has to be decided is what wage setting mechanisms will be used other than job categories. While too narrow ranges and too small overlaps mean that almost only the job categories will be considered, wide and significantly overlapping ranges may result in seniority having too big an impact on wages which leads to an even more rigid automatism than job categories. The other possibility may be tempting: big differences in wages reward outstanding performance. But the subjectivity of specifying requirements and of measuring performance leaves little chance

93 A special case of approximating the performance of employees in the same job is to give those blue collar workers a group wage, whose performance could be measured individually and earlier had been paid individually (*Janky* 1996; *Neumann* 2003). As a result, outstanding performances dropped while “free riding” as well as mutual help and pressurising became a possibility; presumably, the goal of the management was exactly this as well as making total performance more predictable.

for that. Therefore, pushing the performance principle too far may be counterproductive and increase insecurity.

In the spirit of individualising the wage system, modern large companies frequently try to significantly widen pay ranges but eventually stop short of it. In organisations operating in a structure of impersonal and predictable jobs it is unimaginable that employees perform similar job requirements very differently in the long run, which implies that their wages cannot differ very much. The logic of this kind of organisation is that employees performing outstandingly for a long while are promoted while long term underperformers are fired. Even if there were significant differences between employees in the same jobs, performance evaluation procedures would not necessarily be able to differentiate between them. Should the level of personalisation necessary for this evaluation be viable (for instance through the hierarchy of rank at Japanese work organisations or – very differently – through the market-type bargaining within the socialist enterprises), there would be no need for Western companies to base their operations so much on jobs descriptions and could easily eliminate one of the main causes of their inflexibility.

Most modern large companies consider bonuses given on an occasional basis and profit sharing and employee stock programs as the best tools of rewarding performance. The advantage of individually given premiums is the on-going and strong incentive while a potential error in the performance evaluation does not impact the regular and usual wages. Its disadvantage, however, is that performance requirements are short term as opposed to reward by way of promotion. In case of group work, typical at modern organisations, individual performance cannot always be evaluated and significant differences in the wages across the members of a group may undermine cooperation. Group premium, profit sharing and employee stock programs can be incentives towards the long term goals of the organisation but at the same time bigger groups and bigger time spans may increase the danger of having free riders. The motivating impact of employee stock programs works best if, in addition to paying dividends, the management involves employees in making certain decisions at the company. This, however, can be limited by the technological and organisational characteristics of the company, and may open up new areas of labour market bargaining.

*Performance evaluation.* Due to the complexity of tasks and of the work organisation, performance (the output of activities) in the narrow sense more often than not is not measurable. Instead, what is observed is the frequency of specific activities or of personal variables connected to the output. If the observable variable is not connected closely enough to output, performance evaluation may qualify workers unsuitable, who on the whole work satisfactorily, or the other way around, may reward employees, who do well only in terms of the observed indicator.

94 The sample of the panels survey launched in 1996 in the frames of the research program *Versenyben a világgal* is representative for companies employing over 50 in terms of ownership, size, location and sector. The samples of the research in 1999 and 2004 were supplemented to make it representative in terms of employment size and region; over 300 companies were included in each of the research projects.

95 Users of a combination of several approaches are mostly industrial companies, where blue collar workers are evaluated too.

96 *Kökuti-Suha* (2000) report several methodological and procedural shortcomings. *Farkas et al* (2003) present the case of a multinational large company, which could not prove at court that it had lawfully fired an employee as the result of the performance evaluation the company given in evidence was not specific and failed to convincingly differentiate between employees and was not properly documented. The statutory performance evaluation of civil servants has been especially heavily criticised as the law has essentially failed to define the basis (tasks in a job and the specifications of requirements) and the potential areas of use of the assessment (differentiating wages, promotions, training and communication) as well as the requirements of certain agencies as a whole (*Erdődi* 2004; *Mohácsi* 2002; *Nemeskéri* 2003a). Instead of raising wages in a differentiated way, differentiating wages of civil servants could be achieved by reducing the wage of some of the servants; the costs of expected organisational conflicts, however, are high enough for workplace heads to carry out the evaluation only formally.

Apart from decisions on wages, performance evaluation is used in examining aptitude for jobs involving greater responsibility, feedback on outcomes, identifying training and skills development needs or follow up evaluation of selection procedures and development programs.

Up to date methods of performance assessment represent a shift from evaluating personal variables towards behaviour assessment (behaviourally anchored rating scales showing low vs. high performance, or behaviour observation scale). However desirable differentiated wage increases appear to organisations wanting to flexibilise, the performance assessment is not the right method. Regularly repeated procedures are one form of planned and documented organisational communication. Assessment interviews conducted in the same way across jobs or in large employee groups may help identify the impediments of efficient working and make controlling the lower level management easier for top managers.

The only research on the penetration of performance evaluation, based on a representative survey<sup>94</sup> found that between 1996 and 2004 nearly half of the companies used formalised performance evaluation methods, and almost exclusively for the purpose of determining rewards. 5 to 10 percent of companies in 1999 (*Arccal a...* 1999) and 15 to 20 percent in 2004 (*Fókuszban a...* 2004) used it for other purposes, such as promotion, planning training. A questionnaire survey found that four fifth of the 112 interviewed companies used formalised performance evaluation, and over half of them in almost all job categories (*Karoliny-Farkas-László* 2003).

According to research findings, about the same number of companies use a fully, or largely, formalised evaluation to decide about differentiated wage increases as those which do not use it at all or only to a minor degree (*Karoliny* 2005). Nine tenths of interviewed companies evaluate several groups of employees in a formalised way, and over two thirds use the same method.<sup>95</sup> Half of the companies in the sample started to use formalised performance assessment only after 2000, but then for all groups of employees; at the same time only two thirds of the evaluators were trained experts. These underpin the opinion of researchers and experts that modern performance assessment methods, just like other formalised procedures, have not yet been integrated in Hungarian company management practices (*Bokor et al* 2005). Formalised methods either do not imply a real stake for participants or there remains a large room for informal bargaining in the course of formalised management procedures – provided managers are right in thinking that performance evaluation is really so much important in determining individual wage differences.<sup>96</sup>

*Organisational communication.* The method of organisational communication – the role of vertical and horizontal flow of information and the combination of its forms – is tightly interrelated with the operation principles and

power relations of the company. In the ideal linear functional organisation, the direction of the flow of essentially important information is exclusively *vertical*. Managers send instructions to executives, who are responsible for reporting to their superiors about potential failures of implementation. Solving problems by individual decision making or by horizontal negotiation between employees is not only unnecessary but harmful and subject to prosecution. It is assumed, that problems are best addressed by a specialised and higher level organisational unit, which is separate from the executive level, and initiatives by employees and horizontal negotiation reduces the efficiency of the management and causes the organisation to disintegrate.

In several jobs, however, a great part of the necessary knowledge and skills can be acquired by doing the job. It would be very costly for managers to prescribe and control all the moments of work, and employees, in the hope of better bargaining positions, are reluctant to share this kind of knowledge with their superiors. Thus, modern managers are ambiguous about employees' initiatives, the *horizontal* flow of information and mutual help. On the one hand these activities are appreciated and encouraged as necessary to the operations of the company but on the other hand the horizontal flow of information modifies internal power relations and makes managing activities with traditional tools difficult. Uncurbed and uncontrolled, the horizontal flow of information would deprive Western work organisations from their primary virtue: predicable operation. Therefore managers try to limit it to a reasonable level and institutionalise it in a controllable form.

An important development in organisational communication is that the management tries to tap trade unions' powers over business interests. Most importantly, employees can not only express their dissatisfaction with the employer by quitting but can voice their complaints and demands through trade unions (Freeman 1976). This is especially important in view of employees' firm specific knowledge as a key to improve performance. It is thus reasonable for the managers to try to increase and keep under control the number of communication channels with their own tools and learn about the hidden sources of conflicts within the organisations without having to suffer trade union operations and informal bargaining.

In a research on 35 machine industrial enterprises, the presidents of the works councils were asked about the primary way for workers to remedy their wage problems. At 15 enterprises they could do so through the trade union, at 15 through the direct manager and at four through the works council; only one respondent said that individually. Employees turn to their direct managers regarding wage issues in over half of privatised companies and in two thirds of newly established firms while in half of the companies in Hungarian ownership and in one third of foreign owned companies. At two fifths of interviewed Hungarian owned companies trade unions are the primary

channel and works councils play hardly any role. In one fifth of foreign owned companies wage complaints are passed on through the works council, in half of them through the trade union, which explains why direct superiors play a relatively little role (Makó–Novoszáth 2000).

Based on survey in which 360 top and middle-level managers and labour experts at 24 companies were asked by way of questionnaires and in interviews, Bokor *et al* (2005) found that organising communication is one of the weakest areas of human resources management. In this case, however, it seems hardly possible for the company to remove forms of communication trade unions can use for organising or informal bargaining and replace them with its own controllable tools.

Researchers established three categories of firms in terms of the roles of human resources managers in interest negotiations. Some of the human resources managers personally participate in solving conflicts and are confused about whose side they are on. The second type of managers refuse to participate in conflict solving altogether or put a subordinate in charge. The third, and rare, type is able to reconcile the two roles, and they are the most appreciated by fellow managers.<sup>97</sup> They develop communication channels (for instance anonymous intranet fora, employee surveys, newsboards, company bulletins) as well as adequate performance evaluations procedures and train direct managers to apply them to facilitate the exchange of information between employees and managers without their own personal participation and along the lines of company goals. This kind of understanding of their role has much in common with organisational design, discussed in the next section.

### *Optimizing influence activities by organizational design*

The two ways for the employer to control employees are the behaviour-based and the output-based control. The possible tools for the first are prescribing tasks and developing a hierarchical supervising and controlling organisation as well as indirect forms of observing employees. However, to fully clarify problems and tasks is often only possible while in the process of carrying out the tasks and by adapting to unforeseen circumstances. According to the theory of transaction costs, work contracts, which require the general obligation of cooperation of employees, serve to save costs which in turn makes the hierarchical relations of subordination and eventually establishing and running business organisations sensible (Williamson 1975, 1985). For this purpose, however, often the information obtained from employees has to be used to control them, which makes efficient controlling difficult but not impossible. Behaviour-based control serves exactly this end: job evaluation, performance evaluation with its subjective elements as well as quality management are the means of regulating self-control of employees and documenting autonomous decisions for any future control by the management. In case of output-based

97 According to the research, managers do not seem to be able to handle the difference between focusing on processes vs. people yet separating the two would be necessary to reconcile the two extreme roles. The main dilemma for human resources managers is the administrative vs. strategic role. However, to recognise the strategic role is important because their prestige, share from the company budget as well as a personal income greater than the other managers' depend on it.



control, there is no need for direct control. According to the principal-agent theory, the incentive-providing work contract has an enforcement power as the employee gets paid only if meets previously specified requirements (Ross 1973; Jensen–Meckling 1976). In case of multitasking, however, the problem of selecting, weighing and measuring evaluation criteria arises (Holmstrom–Milgrom 1991; Prendergast 1999). A further consideration is that instead of cooperating and increasing common performance, employees will try to influence the evaluator in a way that disadvantages the others (Prendergast, 1993, 1999; Prendergast–Topel 1996).

The two theories agree that by pursuing their own interests, parties will be inclined to misguide each other about facts and intentions. Optimizing influence activities by organizational design is based on the belief that interest driven behaviour of employees and their efforts to improve the pay/performance relation can be best curbed by specifying the general cooperation requirement on an on-going basis rather than by developing a self-enforcing work contract in advance to guarantee cooperation. Accordingly, management methods can be gradually refined and adjusted with the help of behaviour-based control and analysis of employees, and thereby the risk can be reduced that employees use the information channels, indispensable for management decisions, to improve the pay/performance relation (Milgrom 1988; Milgrom–Roberts 1988, 2005; Williamson 1993).<sup>98</sup>

Optimizing influence activities by organizational design has three main directions: 1. limit communication, 2. limit the distributional implications of decisions, and 3. structure decision processes to limit influence activities.

*Limiting communication.* In some of the companies, the written or unwritten rule is that discussing wages is restricted to the employee and employer and the employee breaches loyalty if tells about his/her salary to anyone, including colleagues. This guideline, followed by Hungarian companies, may undermine the satisfaction and readiness to cooperate of those employees who see their own pay/performance relation worse than others'. This is especially important in group work in which the interest of members is to cooperate, and employees, whose performance is mutually dependent, are likely to know each others' wages. What the employer can do is to try to agree with each employee on a reservation wage, i.e. to pay the amount for which the employee is willing to work at that employer. Employees with low reservation wages earn less and try less to individually influence the decision makers; furthermore, if the management prohibits discussing individual wages, employees will not be informed and trust one another enough to take collective action.<sup>99</sup>

Another way of limiting communication is to make a long term decision on the distribution of wages within the group as a result of which influence activities become insensible. For instance, in the sewing mill mentioned earlier long term inequalities were created between the conditions of work of

98 Organisational design can be used by owners and managers too for manipulative purposes and to distort the facts of their contribution to the company's total income and their rightful share of it. Furthermore, organisational design does not only increase the costs incurred by employees' self-interested behaviour but is itself costly. The impact of structuring decision processes on self-interested behaviour depends after all on who bears what share of the costs of applying the process.

99 A case study on the work organisation of a car manufacturer in Hungary found that the work contract of each of the workers at the plant forbade to speak about the wage. Nevertheless, in reality everyone in the workshop knew the others' wages and the workers often discussed the amounts and calculation methods. Semi-skilled workers readily imparted information to the researcher outside plant premises. While team leaders were more careful, they made no secret of their earnings, high by local standards, if only telling the amount as a hard currency sum or a percentage of the wages of semi-skilled workers. At the next level of the hierarchy, however, earning issues were a real taboo (Tóth 1998).

employees working in various groups, on different types of machines and on different machines of the same type. The plant management largely restricted changing places and thereby fixed the differences in pay/performance relations. Inequalities, however, both reduce the productivity of the plant and increase it because they eliminate conflicts related to decision influencing. Without being forced or professionally supported by top managers, workplace managers have not reformed the organisation as a result of which maintained inequalities collectively benefit the workers in the mill. Employees are more tempted to try to exercise influence if decision making on the division of labour is in the competence of direct superiors than if the decisions are made at higher levels on the basis of information given by the direct superiors. In the case of the sewing mill – and probably in other enterprises as well – this has not happened because the owners did not have the necessary capital and applied cheap management approaches (Bódis 2003).

Finally, communication can be limited by excluding those direct managers from wage decisions who are the most exposed to influencing. In a privatised machine factory in Budapest, the foreign owners believed that workplace managers represented employees' interests against top managers and wanted to stop it. As part of reorganising wages, employees were to be put in different categories, but the top management could not do it without getting information from direct superiors. Finally, direct managers were put in charge of categorising, but wages were assigned to the categories only later. Too big wage differences between interdependent employees, however, on the one hand could lessen cooperation; some of the productive employees could even quit the enterprise. On the other hand, cooperation could improve as employees succumbed less to the temptations of exercising influence (Bódis 1996).

For the very same purpose, in a car manufacturing factory in Hungary, the evaluation to decide the variable part of pay originally was done by the management one level higher than the direct management. Semi-skilled workers are paid time rates but on the basis of individual evaluation repeated every three months they get a performance wage premium up to one quarter of the regular wage in the period before the next evaluation.<sup>100</sup> The shopfloor manager in charge of evaluation has 50 to 150 subordinates and has no detailed information on the workers, therefore the evaluation is actually done by team leaders, automatically approved by the shopfloor manager (Tóth 2002). This practice, together with the subjective nature of evaluation, is a source of conflicts within the group, involving the risk of group members wasting their energies on influencing their direct superior. But as the workers work in groups, they have to informally agree on the pay and performance relations, and eventually the performance assessment made by the team leader and endorsed by the shopfloor manager sanctions this agreement.

100 The criteria of the evaluation were cooperation in relation with holidays, innovative and idea giving skills, cleanliness of the work surroundings, working attitude, flexibility, creativity and meeting cost and quality requirements.



*Limiting the distributional implications of decisions.* This method of optimising influence activities is based on the idea that if management decisions have no or hardly any influence on wages, there is no sense in trying the influence them any longer. The simplest solution is to introduce equal wages. One consequence, however, is that the incentive ensured by the difference in wages will be lost. It is a price worth paying if the costs of influence activities and of employees' improving performance and pay relations to each other's detriment are too high for the organisation.

A case study on a car manufacturing company in Hungary found that semi-skilled workers were paid equal wages, twice as high as comparable workers could earn in the region at the time of the research (Tóth 1998).<sup>101</sup> This solution of paying high and equal wages was evidently used to increase cooperation within the organisation, which did not reduce the company's competitiveness because it increased performance. The counter-pole to car manufacturing is the textile industry. A similar cooperation was observed in the large sewing mill, where the management failed to set different performance requirements even though the productivity of machines doing the same operation was significantly different. Less productive workers were assigned to the more productive machines, who then opted for working less hard instead of trying to increase their wages – and thus had no conflicts with their fellow workers. Loss in production could be counterbalanced by the increase made possible by avoiding fighting for the better machines and better wages and by improving cooperation. This case, however, also illustrates that even if paid similar wages, workers may try to improve their situation to the detriment of others by working less hard (Bódis 2003).

*Structuring decision processes to limit influence activities.* By adequately structuring decision processes and collecting and analysing information on employees' activities, companies may try to better separate the manifestations of cooperation between employees from their trying to improve their pay/performance relations to the detriment of others.

*Job evaluation* may reduce the insecurity related to bargaining in jobs that have no comparable jobs at other firms and thus wages are independent, at least to a certain degree, from market factors. Involving employee representatives may help avoid bargaining as employees accept the wages as fair. A job evaluation supplemented with a labour market wage survey may help the company assess the bargaining power of the various groups and decide when to make concessions.

If the comparison makes it clear that few companies pay more for comparable jobs, it is easier for the company to refuse wage demands. Even if a few employees quit and it costs a lot to find replacement, the company can still save the costs of raising the wages of all employees in the same kind of job. Handling selective individual and group wage hikes confidentially makes it

<sup>101</sup> In addition, once in year a bonus is paid up to half of the monthly wage, based on the performance evaluation carried out by the team leader in compliance with the centrally required methodology.

hard for employees to demand wages higher than the individual reservation wage. It may, however, happen that because of changes in supply and demand in the labour market or as a result of bargaining whole groups in the same job or occupation can get a wage increase. If the change in relative wages proves to be mass scale and long term, this exception must be made a rule when reviewing the job evaluation, and attribute changes to the modification of the content of the job.

*Performance assessment* can reveal dissatisfaction of employees without individual or collective bargaining – provided that it is primarily used as a form of communication rather than a tool to set wages. According to research findings presented above, this is not the case with Hungarian companies; one must, however, be careful with interpreting the results of questionnaire surveys.

With the self-control and documentation of autonomous decisions of employees, quality management can be a tool of later management control. In case of *total quality management*, participants in the technological process participate in a formalised way in and assume responsibility for meeting prescribed parameters, record and, if necessary, remove malfunctioning. *Boxes of ideas, discussion groups and quality circles* create fora and incentives for employees to make suggestions about solutions to problems identified by the management. It remains a question, however, whether in the post-socialist transition employees are willing to mobilise their resources in issues other than the pay-performance bargain.

According to a research on the electric and electronic industry, employees' tasks grew most compared to the socialist period were in the area of quality management (in 1995 one fourth and in 2000 nearly 30 percent of employees of the researched companies participated in quality management) (Makó–Simonyi 2003a). Another questionnaire survey found that two thirds of companies assessing performance had ISO quality management, one third operated on the basis of full quality management and almost all companies employing over one thousand used both tools (Karoliny 2005). A series of case studies highlighted that the use of formalised quality management procedures is subject to informal workplace bargaining (Makó–Simonyi 2003b).

Answers to questionnaires, however, depend on how well respondents know the requirements and purpose of participation, which in turn is impacted by the formalisation of quality management. A case study on a large sewing mill in the mid 1990s presents how work in pairs instead of work on the line, widely used in the industry, improved quality and helped cut management costs. The management had to control only the quality of the end-product, the correction of substandard quality produced in the technological process and "punishment" for sloppy work was left to mutually dependent fellow workers. This special way of quality management, however, may generate conflicts. Paired up workers can improve their situation not only by working

more carefully and accurately but also by trying to make their partners correct their mistakes or get their badly working partners assigned to someone else (Bódis 2003).

The management of an instruments manufacturing company decided to provide incentives for innovation through wages rather than small amount premiums and other symbolic rewards as earlier. According to the informal agreement, profits gained through innovations reducing the technological time requirement will be distributed by leaving performance requirements unchanged for six months (Neumann 2003). In one of the car manufacturing firms in Hungary, innovations earn employees scores, and employees are paid a few thousand HUF for a certain number scores, regardless of the applicability of the innovation. Employees submitting applicable innovations, however, are paid two percent of the annually saved labour or material costs. Typically, there are two kinds of innovations: solutions to make work easier and ideas on control, flaw detection and procedures facilitating flawless production (Tóth 1998).

### *Summary*

Hungarian empirical research findings suggest that company managers do not clearly differentiate between management procedures embedded in personal relationships and impersonal management methods. Some of the human resources managers are too much involved in interest conflicts while others totally refuse to participate in developing solutions; few try to reconcile the two approaches. It is found that Hungarian firms design their organisations in a way that helps separate the information flow between members of the organisation and the improvement of the pay/performance relationship. Informal workplace bargaining, however, has not disappeared: in fact, researchers have found that it has spread over to new management techniques, aggravated by adopting formalised Western approaches without thoroughly understanding the interconnections in the organisation.

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**CHANGES IN THE LEGAL  
AND INSTITUTIONAL ENVIRONMENT  
OF THE LABOUR MARKET**

**MÁRIA FREY**



This chapter addresses the changes in the legal and institutional environment of the labour market in two parts. The first part presents the measures that were taken in 2004 – after the publication of the previous volume of the Labour Market Review – and which entered into force in 2005. The second part describes the new legislation and amendments that took place in 2005.

### **1. Measures Taken in 2004 and Entered into Force in 2005**

As of January 1, 2005 the following new measures were introduced:

- Private entrepreneurs and members of corporations became eligible for unemployment benefit (entrepreneurs' benefit), conditional upon the payment of the entrepreneurs' contribution.
- The amount of the fixed-sum health insurance contribution is adjusted to the working time, thus in the case of part-time employment only the correspondingly reduced sum is paid. Moreover, there was an overall reduction of the amount of the fixed-sum health insurance contribution (from 3450 HUF to 1950 HUF) as of November 1, 2005.
- Employers hiring school leavers, people returning to work after child care, the long-term unemployed aged 50 years and over and young people in the framework of the paid internship programme are eligible for a reduction of social security contributions.
- Child care allowance recipients can take up employment as soon as the child is 12 months old without losing their eligibility for the assistance (previously it was 18 months).
- The amount of the nursing allowance paid to those taking care of severely disabled relatives increased by 30% (as of September 1, 2005).
- New rules were introduced for the regular social allowance.
- A special unemployment benefit scheme, the so-called Premium Years Programme was created for public sector employees – civil servants and public servants – who are affected by redundancy.

– In the framework of the corporate tax incentive scheme, small enterprises hiring 30, or in disadvantaged regions 15 new employees are eligible for the business development tax reduction. Medium-sized enterprises should take 150 or in disadvantaged regions 75 new employees to qualify for the same form of support.

– Micro-enterprises with not more than 5 workers, for each new employee they take are entitled to a reduction of the corporate tax or personal income tax base by the annual amount of the minimum wage. Enterprises employing new workforce, for each additional employee can reduce their local business tax base by 1 million HUF.

### *1.1 Entrepreneurs Contribution and Benefit*

The amendment of Act IV of 1991 on the Promotion of the Employment and Unemployment Compensation Benefits – sections 39/C, 42 (7), 44-46/B, and 58 (5) – introduced an unemployment benefit scheme for entrepreneurs as of January 1, 2005.

Self-employed private entrepreneurs and members of corporations are required to pay entrepreneurs' contribution. The amount of the contribution is 4% (3% employers' contribution and 1% employees' contribution) of the income that serves as the base for the health insurance contribution. The annual contribution calculated on the basis of the minimum wage should be paid regardless of whether the entrepreneur has received income from the private enterprise or the company.

The entrepreneurs' contribution can be declared as an expense in the case of corporations, while for private entrepreneurs this is not stated explicitly in the act on personal income tax.

The entrepreneurs' benefit can be paid as of 2006 for persons who:

- are unemployed;
- have spent at least 365 days in employment as a private entrepreneur or as a member of a corporation over the four years prior to becoming unemployed, and have fulfilled the above payment obligation during this time;
- are not eligible for incapacity or accident-related disability pension, or are not receiving sick-pay;
- registered as a job-seeker with the local job centre and have not been offered suitable employment.

The amount of entrepreneurs' benefit is calculated on the basis of the income which has served as the base for the entrepreneurs' contribution. For this purpose the income of the last calendar year is taken into account in which the unemployed paid the entrepreneurs' contribution for at least 6 months during the period of 4 years prior to becoming unemployed. The actual amount of the entrepreneurs' benefit is 65% of the monthly average income defined in this way. Nevertheless, there are minimum and maximum



amounts: the monthly minimum and maximum benefit are equal to 90% and 180% of the minimum old-age pension respectively (24,700 HUF and 49,400 HUF in 2005).

The period of payment of the benefit is a maximum of 270 days; one day of disbursement corresponding to 5 days of contribution.

Gábor Antalfy, the president of the National Association of Traders and Caterers welcomed the new measure because the Association had long supported the extension of protection to entrepreneurs that face insolvency. Regarding the amount of the benefit, he adds that “it does not cover living costs but it helps to survive the transitional period.” A contrary view is expressed by the Hungarian Chamber of Commerce and Industry. It depicts the benefit as a negative measure that increases the burden of entrepreneurs and cuts their income by HUF 17–18 billion. (*Népszabadság*, issue of November 25, 2004).

### *1.2 Incentives for Hiring Disadvantaged Workers*

Act CXXIII of 2004 on the Promotion of the Employment of School Leavers, Unemployed Aged 50 Years and over, People Returning to Work after Child Care or Nursing and the Introduction of the Paid Internship Programme was adopted by Parliament on December 13, 2004 and entered into force on January 1, 2005.

Through the new support scheme the Government aimed to promote the employment of school leavers and the unemployed young who had been facing increasing difficulties on the labour market. The subsidy aims at assisting school leavers to gain work experience. Other target groups are those returning to work following a longer period of inactivity due to child care or nursing. Finally, the scheme also gives incentives to take on the long-term-unemployed aged 50 years and over. These people often face difficulties in finding a job even if their qualifications are otherwise demanded on the local labour market and there is a shortage of labour.

The overall aim of the subsidy scheme is to support the labour market re-integration of these groups. The policy brief of the legislative proposal argues that “it is justified to introduce measures that create more favourable conditions to employers than the general rules on social security contributions. The opportunities of the disadvantaged groups to gain work experience should be further enhanced”.

Employers are eligible for the subsidy if they employ a person from any of the above target groups. The subsidy is paid for 9 months, after which the worker should remain in employment for at least an additional 3 months. Working time can be full-time as well as part-time, however part-time employment should not be less than 4 hours per day. The subsidy is 50% of the social security contributions payable by the employer, and is reimbursed ret-

*New support scheme  
to increase employment*

respectively. In 2005 the wage eligible for the subsidy was capped at a monthly gross HUF 90,000 and accordingly the maximum amount of the subsidy was HUF 13,050 a month.

For each target group there are certain eligibility conditions. School leavers are eligible if they are under the age of 25 and have not held a job previously. People returning to work after child care or nursing are eligible if they are not in employment when the payment of their assistance ends. This excludes those who are laid off shortly after they return to work, which is unfortunately a rather widespread phenomenon. Unemployed people aged 50 years and over are eligible if they are registered as long-term unemployed by the local job centre.

Support for hiring unemployed people aged 50 years and over had already been available before this measure: upon the application of the employer a full or partial wage subsidy and/or a contribution waiver could have been provided. The scheme was amended commencing from 2005 so that the reduction cannot be less than 50% of the employer's social security contributions. In addition, the subsidy includes the fixed-sum health insurance contribution which amounts to HUF 1,950/month and the 3% employers' contribution to the Labour Market Fund for unemployment insurance.

Recently a new legal concept has been introduced: the so-called paid internship employment status. This type of employment can only be established by a school-leaver with a higher education degree for a single period of 9–12 months. The intern cannot fill a position independently; nevertheless, the paid internship is a form of employment. At the end of the internship the employer provides the intern with a recommendation letter that certifies work experience. Each intern is assigned a mentor who gives individual professional guidance, regular feedback and evaluation. The employer of the intern is also eligible for the reduction of contributions presented above, however the intern can be older than 25 and there is no requirement to maintain the employment relationship.

Employers are required to inform the tax authorities in advance in the event that they wish to request the reduction of the social security contribution. The sum is reimbursed by the Tax and Financial Control Administration in a single amount retrospectively, after the end of the 9 months of employment. The tax authority makes a declaration of expenses and submits a payment request to the Labour Market Fund.

This method has triggered some negative remarks concerning the new law. It was argued that “firms would be more willing to take up the new subsidy if they did not have to pay that sum at all.” (*Gyenis* 2004). Moreover, if for any reason the employment relationship is terminated before the end of the 9-months period, employers are not eligible for any reimbursement, regardless of which party is held responsible for the termination of employment.

#### *Paid Internship*

In addition to the reduction of the employer's social security contribution for the employment of paid interns, central administration bodies and their regional offices are eligible for a monthly maximum subsidy of HUF 45,000 for the period of 9 months, if the number of interns exceeds 1.5% of their total authorised headcount.<sup>1</sup> The interns are not civil servants, nevertheless this measure allows them to gain work experience and practice in public administration. It is advantageous for the ministries as well because of the subsidies and the possibility to recruit and train talented young people.

A survey of the ministries showed that interest in the paid internship scheme had been negligible before the end of March 2005, mainly because it was unclear whether interns were counted in the authorised number of staff (Ministry of Employment and Labour, April 2005). The Government nevertheless saw this new scheme as a tool to improve the labour market prospects of graduate school leavers and to allow central administration bodies to recruit new civil servants from a wider pool of talented young people. The number of authorised staff in central administration bodies is 59,579 people, thus if maximum use was made of the programme it would mean that 900 young people could benefit from gaining work experience in public administration.

In order to promote the hiring of interns, the Minister of Employment and Labour launched a central programme that gave further incentives to the existing subsidies. (The deadline for applications was June 30, 2005.) In the framework of the programme those budgetary institutions that took paid interns in 2005 were eligible for an additional 50% wage-subsidy but not more than 45,000 HUF/month.

All in all the following subsidies were available in the paid internship programme:

- the reimbursement of 50% of the social security contributions after a 9-months period;
- 50% of the grant (salary) but not more than 45,000 HUF/month (financed from the state budget);
- 50% of the grant (salary) but not more than 45,000 HUF/month in the framework of the central programme (financed from the employment sub-fund of the Labour Market Fund).

### *1.3 The Premium Years Programme in Public Administration*

The Premium Years Programme and the so-called “special workforce” were introduced with a view to improving the efficiency and cutting the costs of public administration.<sup>2</sup> The Premium Years Programme gives a fair opportunity to older civil servants, public servants and administrative assistants to retire gradually. For younger public sector workers another scheme, the “special workforce” scheme was created to facilitate transition from public administration to the private sector.

<sup>1</sup> The source of funding is the 2005 annual budget of the Republic of Hungary, Chapter X, heading 20, sub-heading 1, category “Other Staff”.

<sup>2</sup> Act CXXXII of 2004 on the Premium Years Programme and the Special Workforce was adopted by Parliament on December 13, 2004 and entered into force on January 1, 2005.

### *Redundancy with a premium*

The Premium Years Programme offers the alternative of part-time employment for public sector employees who become redundant as a result of the modernisation of the public administration. Individuals are eligible if they are not more 3 years from retirement and have been employed in the public sector for at least 25 years. This cohort comprises approximately 60,000 public servants and 10,000 civil servants. An important provision of the law is that participation is voluntary even if all eligibility conditions are met.

Those who decide to join the programme instead of being laid-off, continue receiving 60% of their monthly salary for 3 years. During this period they might be required to work a maximum of 12 hours per week. The “premium years” count as employment and end when the person reaches retirement age and becomes eligible for old-age pension. If the individual finds employment outside the public sector within 12 months of joining the programme, she/he is entitled to a one-off payment.

Parliament adopted Act CLXXX of 2005 on Measures to Increase Employment and Promote Flexibility on December 19. The act extended eligibility for the Premium Years Programme in the public sector for those within 5 years of retirement as of January 1, 2006. To further increase the attractiveness of the programme participants receive 70% of their monthly salary.

Those who have been employed in the public sector for at least 10 years but are further from retirement age can opt to join the special workforce under similar conditions. The maximum duration of this scheme is one year, during which participants are required to undertake active job search and the use of the employment services in addition to part-time work. The detailed rules are laid down in 30/2004 (Dec. 21) MoEL Decree.<sup>3</sup> The local job centre of the Public Employment Service:

- conducts an in-depth personal interview to explore the participant’s background, expectations and labour market prospects;
- explores the possibilities and obstacles to employment,
- offers labour market services;
- provides job brokerage services;
- gives information on assistance and subsidies, especially training opportunities.

Participants sign a job-seekers agreement with the job centre. Compliance with the agreement and progress are jointly monitored on a regular, but at least monthly basis, and if necessary modifications are made.

The Premium Years Programme and the special workforce can be joined during 2005–2006, and they will be run until the end of 2009. The costs are borne by the central state budget.

The prolongation of the transition between working life and retirement on the one hand is positive for the employee, but on the other hand it is also favourable for the state budget because the costs of lay-offs are distributed over

### *Special Workforce*

3 – 30/2004. (Dec. 21) Ministry of Employment and Labour Decree on the Detailed Rules on Provision and Use of Labour Market Services for Civil Servants in the special workforce; in force since January 1, 2005.

a three-year-period and do not incur all at once as would be the case with normal redundancy and severance payments.

#### *1.4 The Amendment of the Rules of Regular Social Allowance*

Parliament adopted Act CXXXVI of 2004 on the Amendment of Certain Social Laws on December 20, 2004. This Act modified among others Act III of 1993 on Social Administration and Assistance (Social Act). The amended act entered into force on January 1, 2005; however, certain provisions will enter at a later stage.

Two main changes should be highlighted here. One is the creation of county social and custody offices as of September 2005. They are set up as part of the county and Budapest public administration offices and have competence and authority in social administrative affairs. Their establishment was made necessary on the one hand by the weak guarantees against discriminative procedures – against which appeal procedures could not provide adequate protection. On the other hand in the field of social administration there was a lack of a single administrative body resulting thus in a fragmented and incomplete institutional structure.

The other important change was the amendment of the rules on regular social allowance. According to previous eligibility criteria, regular social allowance could be granted to persons who had no income and who either lost 67% of their working capacity or exhausted their unemployment benefit. Those who did not comply with these criteria became eligible only following a so-called cooperation phase with the authorities. This meant that some people were left without any financial support for a rather long time. In other words the regular social allowance failed to address those situations where there had been no previous unemployment status, particularly cases when the individual had received other forms of social income, such as nursing allowance or child care allowance but these were finished. These groups are particularly vulnerable because their previous income was already very low and they do not have savings. Thus, in their case one year without any financial assistance leads to extreme poverty.

The legal amendment had a twofold objective: first to enhance social protection, and second, to assist these people to re-enter the labour market. As of September 1, 2005 these groups can be granted regular social allowance if they agree to cooperate with the Public Employment Service or any other service designated by the local government and take part in a reintegration programme. Other eligibility criteria for the allowance (means-test) were not modified.

A further key element of the reform is the revision of the rules of obligatory cooperation. Already the previous version of the Social Act provided for obligatory cooperation of regular social allowance recipients with the local government, but its rules were left to be decided by local governments. At the same

*Extended eligibility  
for regular  
social allowance*

*Promoting return  
to the world of work  
– reintegration  
programmes*

time, however, local governments were required to organise public work for allowance recipients who, in turn, were required to take the work offered.

Helping allowance recipients back to the labour market and thus fighting undeclared work calls for more concerted efforts and stronger cooperation. In the spirit of the amendment, this should take place in a comprehensive fashion using active labour market measures, social work and public work.

Each local government is required to create the adequate institutional conditions for the obligatory cooperation either by its own institution or in association or partnership with other local governments or authorities. The institution designated for cooperation prepares a personal reintegration plan together with the individual which addresses social as well as employment issues. The programme defines the concrete terms of the cooperation, the services provided and the work-related obligations of the allowance-recipient (i.e. registration with the PES, participation in community service work etc.) The reintegration programme takes the form of a written agreement between the institution and the individual.

The act amends the obligation of local governments to offer public or community service work opportunities for non-employed people. All in all the new provisions keep the old rules but make them more specific. As a new element, provisions on the duration of public work are introduced. The overall aim of the regulation is promoting work rather than passive measures and thus, it extends the maximum duration of public work or community service work to 12 months. The target group of public work programmes is widened: besides allowance-recipients people who have agreed to cooperate with the local government can also be involved.

The Social Act was amended again by the Hungarian Parliament on December 19, 2005 (Act CLXX of 2005 on the Amendment of Act III of 1993 on Social Administration and Social Assistance). A number of the new provisions are relevant from a labour market perspective but as they enter into force either on April 1, 2006 or January 1, 2007 they will be presented in the 2006 Volume of the Labour Market Review.

## **2. New Measures in 2005**

The new measures planned or taken in 2005 are part of the “100 Steps Programme” of the Government. It was argued “it is impossible to make up for the shortfalls at once, however a sequence of small steps will set in motion. The changes that will make work pay and make work a real option for all, will help active job search rather than passive allowance-receipt, will improve the enforcement of labour regulations, will punish those who breach the rules and eliminate the ways of tax evasion” (<http://www.magyarorszag.hu/100lepes/foglalkoztatás>).



The first 15 steps to “enhance the value, the respect and security of work” were the following:

*“We want to build a country where work is a real and attractive option for all.”*

1. The reform of the unemployment compensation. The replacement of unemployment benefit by the job-search benefit and more and better services for those who become unemployed to help them find a new job in the shortest possible time.

2. The introduction of the so-called “blue labour” or in other words casual work in private households (i.e. babysitting, housekeeping, gardening etc.) to improve the employment security of this group of casual workers.

3. Increasing the flexibility of seasonal employment in agriculture.

4. Strengthening labour inspection, coordinating the activities of the various control authorities to combat undeclared work.

5. The introduction of special rules in the construction and tourism sectors to transform undeclared work into legal employment.

6. The incorporation of new provisions in the Criminal Code on the basis of which employers can be held liable for undeclared employment.

7. The amendment of the public procurement regulations: regular employment and labour relations were included in the eligibility conditions for participation in public procurement tenders and calls for proposals for grants.

8. To improve security on the labour market, new provisions are introduced to prevent employers from setting unrealistically high performance targets and thus pay less than the statutory minimum wage for their workers.

9. The amendment of the rules of temporary agency work, with special focus on preventing evasion of contributions and taxes.

10. Extending the possibility of regular employment – under certain conditions – to recipients of unemployment, child care and social allowances.

11. The modification of the financial regulations concerning public work programmes in order to make them more targeted and efficient in helping the most disadvantaged groups back to work.

12. Promoting the coordination and cooperation of social and employment services to help the activation and labour market reintegration of welfare-recipients.

13. Reform of the funding mechanism of adult education with a view to improving its quality and efficiency. In the new system funding will be linked to outcome indicators, most importantly to the number of those who can find work after training. Moreover, vocational training should become more responsive to jobs market demand.

14. Extending the Premium Years Programme to the business sector.

15. Reforming the subsidies for the employment of disabled people in order to improve funding and make sure that assistance reaches those who need it and are not used fraudulently.



+ *Start Programme*: Further incentives were introduced to foster the employment of school leavers. Employers hiring young people entering their first job will be granted a reduction of social security contributions for a two-year period and for wages up to HUF 90,000. Instead of 33%, the employer has to pay 15% as the social security contribution in the first year, and 25% in the second year.

In the following section the measures enacted and entered into force by the end of 2005 are presented.

## 2.1 *The Reform of the Unemployment Benefits*

The unemployment benefit system has undergone significant changes since 1991 (when the Employment Act entered into force). Some eligibility criteria have been restricted (unemployment benefit), certain types of assistance were phased out (school leavers unemployment allowance) or replaced by less generous ones (e.g. the pre-retirement pension was replaced by the pre-retirement unemployment allowance), and new benefits were introduced (e.g. the job-search assistance). As of November 1, 2005 major changes were introduced in the unemployment benefits. Changes will be phased in for new entrants.<sup>4</sup>

The various types of unemployment benefits are replaced by a range of job search assistances. The key message is that only active job seekers – i.e. those who are engaged in job search, cooperate with the local job centre and accept any suitable jobs that are offered – are eligible for the assistance. (MoEL-MoJ, 2005) Thus active job search has become the main eligibility condition for the assistance. This is well illustrated by the fact that the unemployment status is not even mentioned in the amended legislation.

### 2.1.1 *The Job-search Benefit*

In the new system the unemployment benefit is replaced by the job-search benefit. The eligibility conditions are similar to a mixed, insurance-based and universal assistance together with reinforced incentives to take up work. The latter is manifested for example in the fact that the amount of assistance decreases with the duration of unemployment.

Job-search benefit can be granted to job-seekers who were employed for at least 365 days within four years of becoming unemployed. As eligibility to one benefit day requires five days spent in employment, the shortest disbursement period of the job-search benefit will be 73 days (previously the shortest period was 40 days requiring 200 days in employment), while the longest period will remain at 270 days. The amount of the job-search benefit equals 60% of the eligible average wage. The maximum and minimum amounts have been detached from the minimum old-age pension and are linked to the minimum wage.

In phase one, the duration of which is half of the disbursement period, but a maximum of 91 days, the job-search benefit amounts to 60% of the ben-

*Job-search assistance instead of unemployment benefits*

*The two phases of the disbursement*

<sup>4</sup> Act LXX of 2005 on the Amendment of Act IV of 1991 on Job Assistance and Unemployment Benefits. The Act was adopted by Parliament on June 27, 2005 and entered into force on November 1, 2005.

efficiary's earlier average wage, with a fixed minimum and maximum. The minimum amount is equal to 60% of the minimum wage, while the maximum is the double, 120% of the minimum wage (if the minimum wage is HUF 57,000, the minimum amount is HUF 34,200 and the maximum is HUF 68,400 per month, in contrast to HUF 22,230 and HUF 44,460 before November).

The duration of phase two is the number of the remaining entitlement days, but not longer than 179 days. The benefit during this phase is a fixed amount: 60% of the minimum wage. (If the job-seeker's eligible monthly average earning was lower than the minimum amount of the benefit, then she/he is entitled to that amount, namely the previous monthly average earning).

Active job search is a key requirement in order to qualify for the benefit. Its terms and conditions are set in out the job seekers agreement signed by the job seeker and the local job centre. This document is adopted jointly by both parties and sets out a sequence of activities that help the individual to return to work. Active engagement and participation of the individual is crucial, and in case of non-compliance by the individual, the benefit must be suspended or terminated.

Job-seekers will be further encouraged to find employment by a bonus that is paid for those who succeed to find a job before the end of their entitlement. This is not new; it was already part of the previous job-search incentive. The bonus is a lump-sum payment that amounts to 50% of the remaining benefit entitlement and is granted to job-seekers who take up full-time, or part-time (at least 20 hours a week) permanent employment with a legal contract.

The job-search benefit gives entitlement to social security benefits, and thus – like the unemployment benefit – is subject to health insurance and pension contributions.

*Bonus for successful  
job seekers*

### *2.1.2 Job-search Allowance*

The aim of the amendment is to ensure that no group of unemployed receives a lower amount of benefit, and any reduction in the average daily assistance is compensated by a longer entitlement period. Therefore the job-search allowance was introduced for those who:

- exhausted their eligibility for the job-search benefit;
- are close to the statutory retirement age;
- or due to the changes in the eligibility conditions, do not qualify for job-search benefit. (MoEL, May 2005)

The allowance is a fixed-sum – HUF 22,800 in 2005 – which equals 40% of the statutory minimum wage. It also gives entitlement to social security assistance, thus the allowance is subject to health insurance and pension contributions. Its payment can be suspended or terminated if the individual takes up employment. In the event that employment is terminated, the remaining entitlement days cannot be taken over for a new period.

*The eligibility conditions  
and duration of the job-  
search allowance*

– The introduction of the support to the job-search incentive on July 1, 2003 served the purpose of promoting longer and closer cooperation with the job centre. This allowance could be granted to those who engaged in active job search and cooperated with the job centre. Another condition was that they had received unemployment benefit for at least 180 days but had used up their entitlement entirely. The amount of the allowance was 85% of the minimum old-age pension and the duration was 180 days, which could be extended by another 90 days for people aged 45 years and over.

The support to the job-search incentive had to be adjusted to the new system and the lessons learnt had to be incorporated. One of these is the requirement for active job search which should be there from the first day and not only after a longer passive period.

Therefore job-search allowance can be granted to those job-seekers who have been eligible for at least 180 days of job-search benefit and have already used them up but were not able to find a job. The allowance is paid for 90 days, in the case of job-seekers aged 50 years and over for 180 days.

Furthermore, job-search allowance can also be granted to those who had gained eligibility for unemployment benefit according to the old rules before November 2005 (i.e. they accumulated 200 days in employment for 40 days of entitlement), however in the new system they are not eligible because they do not reach 365 days in employment. To avoid a situation whereby these people are worse-off in the new system, they are granted job-search allowance if they had been employed for 200–364 days during the four previous years. The allowance is also paid for 90 days in their case.

– The pre-retirement unemployment allowance is also kept in the new system with identical eligibility and payment conditions. (The amount of the allowance has increased: previously it was 80% of the old-age minimum pension and now it is 40% of the minimum wage). However, its name has been changed and it has been integrated into the general job-search allowance scheme.

People receiving job-search benefit are permitted to take up temporary employment without losing eligibility to the benefit, under the same rules as unemployment benefit recipients. The purpose of this new rule is to minimise the disincentives and benefit-traps resulting from passive measures. Furthermore, in the new system allowance-recipients are also permitted to take up temporary employment with the temporary employee card with no consequences on the payment or amount of the allowance.

*Employment during job-  
search assistance*

## *2.2 “Blue Work” for Casual Workers in Private Households and “Green Work” in Agriculture*

The so-called casual workers’ log was introduced years ago. It reduces red-tape and the cost of hiring of a casual worker. So far rules were predominantly shaped to suit the construction and the agriculture sectors with the highest

demand for casual work. In these sectors, labour inspection is fairly frequent, therefore it was worthwhile for employers to regularise their workers. New rules extended this form of employment to casual workers in private households (such as baby-sitters, housekeepers etc.).<sup>5</sup>

In this case the casual workers' log is maybe less crucial to avoid fines for undeclared employment – it is not realistic and feasible that labour inspectors will inspect private households – but employers should acknowledge how a minor contribution can significantly improve the social protection of their employees.

There is a single casual workers' log with white, blue and green pages where employment should be recorded according to the sector: businesses on the white page, private persons or charities on the blue page and agricultural businesses on the green page. The old rule is still valid, namely if the casual work is recorded in the log, it is considered an employment contract without the need for any further written agreement.

For enterprises and their casual workers using the white pages of the log, the old rules apply. A temporary worker can be employed by a company for up to 5 consecutive days and up to 15 days a month and a maximum of 90 days in 12 months. In the event that the individual works for more than one company, the maximum number of days is 120 per year.

Casual work should be registered on the blue page if it is undertaken for private persons or charities and is not related to any business activity. These activities are typical household jobs, such as housekeeping, cleaning etc. In this case more favourable conditions apply than the general rules: individuals can work for up to 200 days per year having as many as 3 or more employers.

Green pages are filled by employers who hire seasonal workers in agriculture. In their case the general rules apply, with the exception that the number of days per month might exceed 15. Another favourable change is that foreign nationals who otherwise would need a work permit can also be hired for seasonal work in agriculture (for up to 60 days a year) without a permit.

The following groups can engage in casual work:

- people who are at least 16 years old, including those who are receiving unemployment benefits;
- individuals who are at least 15 years old and are enrolled full-time in elementary, secondary or vocational education, during school holidays;
- Hungarian or foreign-nationals who are enrolled full-time in vocational, secondary, art or higher education in Hungary;
- those foreign nationals who do not need a work permit to take up employment in Hungary and also those foreign nationals who are married to Hungarian nationals and have residence in Hungary.

The casual workers' log is a public document that serves to keep the employment record. It is issued upon the request of the (potential) casual work by the local job centre.

*White pages for enterprises  
with unchanged rules*

*Blue pages for private  
persons and charity  
organisations*

*Green pages for seasonal  
employment in agriculture*

<sup>5</sup> Amendment of Act LXXIV of 1997 on Casual Work with the Casual Workers' Log and a simplified employers' contribution. The amendment was adopted on June 27, 2005 and entered into force on August 1, 2005.

*Advantages  
for the employee*

The work contract between the employer and employee is established by filling in and signing the relevant sections of the log. The employer must complete on the day of employment – and on a daily basis – the sections “Name and address of employer, date and place of employment, job and wage” and sign. The simplified employer’s contribution – the so-called public tax and contributions stamp – should be attached to the page and signed at the end of each working day.

Casual work is first of all advantageous for the employee because it gives entitlement to social security assistance, unemployment benefits and pension. Therefore unemployed people are advised to take the log. The rules also allow pensioners to take it (many pensioners engage in household work to supplement their pensions), nevertheless it is a question whether there are incentives to do so because they in any event receive a pension.

Unemployment benefit recipients are also allowed to take up casual work without losing eligibility for the assistance. Nevertheless the payment of the unemployment (job-search) benefit should be suspended for the duration – up to 90 days – of temporary employment – without affecting the total number of entitlement days.

*Advantages for the  
employers – simplified  
contribution*

From an administrative point of view, temporary employment is advantageous for the employer for a number of reasons:

- there is no need for a written work contract,
- there is no need to keep employment-related records and there is no reporting requirement to social security, pension and tax authorities, because it is done by the local job centre,
- there is no need to calculate and deduct the advance for the personal income tax,
- there is no need to pay social security contributions, the fixed sum health insurance contribution and other employment-related contributions (the employers’ and employees’ unemployment contribution).

To ease administrative requirements, a simplified procedure has been created with the so-called “public tax and contributions stamp” that can be purchased and shall be stamped in the casual workers’ log. The price of the stamp depends on the daily wage according to the ranges shown below:

Daily wage (HUF/day)	Price of the stamp (HUF/day)	Basis for entitlement (HUF/day)
1800-2399	400	2400
2400-2999	700	3200
3000-3599	900	4000
3600-4600	1100	4800

Figures in the table are valid as of January 1, 2006.

The advantages for companies are obvious, but they are not so clear-cut for private persons who employ housekeepers or babysitters. Purchasing the

stamp is an additional burden both in terms of time and money, however favourable it is. It remains easier to pay without any administration. One of the motivating factors though can be the possibility of personal income tax reduction: 75% of the value of the stamp can be deducted from the personal income tax base. The other motivating factor might come from mutual confidence because by taking advantage of the possibilities of the casual workers' log, employers can provide their employees with increased security subsidised by the state.

### *2.3 Combating Undeclared Work in the Construction Sector*

The tax authorities can check compliance with the data reporting requirements in the case of construction work over the value of 10 million HUF from September 2005.<sup>6</sup> The Tax and Financial Inspection Office should receive the relevant data on the developer and the building contractor (such as the building permit, contacts of the chief technical supervisor and the on-site building supervisor), and on the construction itself. All constructions must be reported that require a building permit and exceed the value of HUF 10 million. According to the new provisions, developers must attach the detailed budget, the time plan and the list of building contractors and subcontractors to the application for the building permit.

Nevertheless, developers cannot provide these details when they apply for the building permit because the complete documentation is compiled only when the permit has been issued. The budget is then drawn up and contractors are selected. Therefore the preliminary budgets give little basis for making any conclusions on the reality of invoices, the content of the contracts or undeclared employment. The president of the National Association of Home Building Contractors claimed that these requirements are merely an unnecessary burden on the developers and ultimately the buyers will have to pay the extra costs. He also expressed his concerns that these restrictions hit the home builders especially hard (*Szalai* 2005).

Developers shall notify the relevant authorities at least 8 days prior to the start of the construction. The construction authorities then have 3 working days to examine the documentation and ask for clarification or additional documents within 8 days. If the developer fails to submit the requested documents, the authorities might decide to forbid the construction. Authorities can also impose a fine if the developer has failed to notify them or submit the requested documents before starting the construction, or in the case where the building documentation does not meet the requirements.

*Indicative budget and more thorough checks of the building documentation*

6 Act LXXVII of 2005 on the Amendment of Certain Acts on the Reporting Requirements of Constructions. Parliament adopted the act on June 27, 2005 and it entered into force on July 15, 2005.



## 2.4 New Provisions to Make Undeclared Employment a Criminal Offence

The Amendment of the Criminal Code entered into force on September 1, 2005. According to this Section 310/A stipulates that undeclared employment or fictitious service contracts<sup>7</sup> are a penal offence.

Undeclared employment, because of the tax evasion it entails, was already a criminal offence and was sanctioned accordingly. Therefore, the amendment of the Penal Code aims to encourage judges to make stricter sanctions. In other words, undeclared employment as such is not the crime but the loss of revenues it causes to the state budget and social security funds. According to the Criminal Code all actions through which one can evade tax or other contributions shall be sanctioned. Undeclared employment clearly falls into this category.

According to tribunal sources, the main difficulty is that the amount of evaded taxes and contributions, or in other words the damage caused to the state budget, is very hard to establish in the absence of contracts and other documents. Therefore, the offence can usually be proven for a shorter period – a few weeks or months. As a result, employers have a good chance to escape with the lowest sentences for tax evasion – fines or probation (*Lencsés* 2005).

In the absence of special rules, in the case of a violation of the obligation for payment of public taxes and contributions courts usually applied the relevant provisions on multiple offences. Accordingly, judges did not add the loss of tax revenue caused by the undeclared employment of each worker but made the sentence on the basis of a single offence that had been proved to cause the highest loss of tax revenue. Given the fact that this amount was usually rather low for the above reasons, offences most often fell into the category of “tax evasion resulting in minor losses of tax revenues” and the sentence could not be more than two or a maximum of three years imprisonment. The amendment aimed to change this – otherwise, from a legal point of view adequate – practice. Therefore the act orders that the combined amount of taxes and contributions evaded be taken into account. As a result, employers with a higher number of undeclared workers might get the highest – eight years of imprisonment – sentence even if the tax and contributions evasion for a single worker has been less significant.

For the basic offence – less than HUF 2 million losses in tax and contributions revenue – the sentence shall be up to one year imprisonment, reparatory work or payment of a fine. For the qualified offence, however, sections 310/A and 310/B of the Criminal Code allow only imprisonment. If the loss of revenue caused to the Labour Market Fund is between HUF 2–50 million, imprisonment shall be up to 3 years, if the loss is between HUF 50–500 million the sentence can be up to 5 years imprisonment. As far as the social security

*Stricter sanctions for tax evasion but not directly for undeclared employment*

<sup>7</sup> Fictitious service contracts are used to cover employment relationships with a view to evade employment-related expenses for the employer, such as contributions, paid holiday etc.

funds are concerned, if the tax and contributions evasion is between HUF 2–50 million, the sentence shall be up to 3 years in prison, if the amount is higher, imprisonment shall be up to 5 years. Nevertheless, if the perpetrator settles the tax debt before indictment, it shall not be liable for prosecution.

### *2.5 Strengthening Labour Inspection*

Parliament adopted Act CLV of 2005 on the Amendment of Labour Inspection Regulations on December 13, 2005. This sets considerably higher fines for undeclared employment: instead of the previous maximum of HUF 6 million authorities can impose fines in the range of HUF 30 thousand and 20 million. The amount of the fine depends on the number of offences and the number of employees concerned. The rules make further distinctions on the basis of the size of the company, whether the employer is a private entrepreneur, or whether the company is a first-time or a recurrent offender.

The provisions on state subsidies and special funds of the budgetary act (Act XXXVIII of 1992) have also been amended to include the legal employment and labour relations as requirements to qualify for any public funding, including participation in public tenders.

### *2.6 The Adjustment of Performance Targets*

Employers often use unachievable performance targets to avoid the payment of the statutory minimum wage. This practice was ended by a legal amendment: when the average performance is below 100% and at least 50% of the workers are beneath 100% employers are required to review and adjust their performance targets. As a result of the adjustment, average performers are guaranteed the statutory minimum wage even if their performance is less than 100% of the previous targets. Those workers whose performance remains under 100% following the adjustment can legally be paid less than the statutory minimum wage.

### *2.7 The Modification of the Rules of Temporary Agency Work*

Act CLIV of 2005 on the Amendment of the Labour Code restricted the rules of temporary agency work to ensure that this form of employment cannot be used to avoid the payment of statutory contributions.

The provisions that entered into force on January 1, 2006 put forward the following guarantees:

- The law prevents the employer setting up a temporary work agency in order to change the status of its employees and employ them according to the rules of temporary agency work. The act prohibits temping if the worker has been previously employed by the leasing company, or if the two companies (the temporary work agency and the leasing company) are connected through ownership.

– To prevent the leasing of undeclared temporary workers, the act stipulates that the temporary work agency must prove the regularity of the employment (by reporting it to the Central Employment Register) and provide the leasing company with the relevant documents.

– In the absence of a work contract between the temporary worker and the temporary work agency, or if the contract does not meet the legal requirements of temping, it shall be considered that the temporary worker and the leasing company has established a direct employment relationship. This new sanction will encourage employers to use lawfully employed temporary workers.

– To ensure the principle of equal pay for equal work, the act provides that if the temporary worker has been employed by the same leasing company for at least 6 months, then he/she becomes entitled to the same wage (including remuneration for shift work, overtime, on-call duties) as the regular employees of the company. If the temporary employee has been working for the leasing company for one year (if the temping is for an indefinite period) or for two years (if the temping is for a fixed period), he/she becomes entitled to all direct and indirect financial or in-kind benefits provided on the basis of the employment relationship.

## *2.8 Dismantling the Barriers to the Regular Employment of Child Care Allowance Recipients*

The Government adopted the amendment to Act LXXXIV of 1998 on Family Support on August 24, 2005. The amendment introduced a number of provisions, one of them with direct relevance to employment. This stipulates that child care allowance recipients are allowed to take up full time employment without losing eligibility to the allowance and are under full legal protection after the child is one year old. In this case the full amount of the allowance can be used to finance the costs of day care services.

One of the day care options is family day care. Act XXXI of 1997 on the Protection of Children and Custody Administration delegates the requirement and responsibility to operate day care services to local governments. Depending on their resources and capacities, local governments can set up their own services, provide them in partnership with other local governments, or purchase them from non-governmental service providers. As of July 1, 2005 all settlements with more than 10,000 inhabitants are required to operate crèches. Nonetheless, smaller settlements still lack these services. Only 4.2% (998 places) of the crèche places are found in villages where 15–20% of children of the relevant cohorts live. The cost of a crèche for one child is HUF 900–1,100 thousand per year, while the cost of family day care is significantly cheaper, only HUF 500 thousand/child/year. The running costs in both cases are covered by funding from the central state budget, with additional resources coming from the local government and the fees paid by parents.

*Unrestricted employment  
for child care allowance  
recipients*

## 2.9 Model Public Work Programme

In the framework of the “100 Steps” Programme the Government has launched a new public work programme to address seasonal employment problems and to involve the most disadvantaged groups.

Public work is organised by local governments to carry out the tasks that are delegated to them by the law and to provide seasonal employment for the long term unemployed, including regular social allowance recipients. It is important that public work creates an added value to the whole community and the settlement, as set out by the local government (MoEL, Public Works Council, 2005).

The following tasks can be carried out during the winter months:

- social catering for people who are temporarily unable to provide for themselves;
- home assistance for those who need regular support with daily activities (e.g. direct care and help with household tasks such as laundry, cleaning etc.);
- redecoration and refurbishment of buildings owned by the local government;
- community cleaning and maintenance activities (e.g. cleaning snow from roads).

Tasks that can be carried out from March:

- construction, restoration and maintenance of drainpipes and ditch systems owned by the local government;
- maintenance of roads and its surroundings within the territory of the settlement;
- collection of household and other community waste and its transportation to designated waste disposal sites;
- creation and maintenance of parks and other green areas;
- construction and refurbishment of public social housing estates and other community buildings;
- cultivation of agricultural land owned by the local government;
- creation of industrial estates;
- refurbishment and preservation of public buildings;
- non-specialised tasks to prevent the danger of collapse of cellar-systems, land-slides etc.
- provision of basic personal social services;
- maintenance of cemeteries and graveyards.

To carry out the above activities local governments – municipalities (districts), villages and partnerships of local governments (in the event that the same activity is carried out at each participating settlement) – can apply for funding. It is a model programme because it gives the possibility to organise community work during the winter months for the first time and also because

*Public work programme  
in two phases*

funding is based on the coordination of resources. The programme started in November 2005 and runs for 6 months, until April 2006. The participant quotas have been gradually filled up and the number of participants is expected to reach 24 thousand by the end of the period.

### *2.10 Reforming the State Funding of Adult Education*

The amendment of the adult education act introduced reforms in the normative funding of adult education.<sup>8</sup> On the basis of the new provisions, adults aged 50 years and over are entitled to receive a second qualification that is included in the National Register of Qualifications (NRQ) free of charge or for a reduced tuition fee. The detailed conditions are to be laid down in a separate regulation.

The new provision adds to the already existing objectives, including “support to adults to acquire their first NRQ-listed vocational qualification” and “provision of general, language and vocational training for disabled people”.

Furthermore, more rigorous performance requirements have been introduced for adult training institutions receiving state funding. In the case of NRQ-listed training courses, only those institutions are eligible for the subsidy which provide adequate evidence of employers’ demand for the training. In addition, if the number of students who receive the final qualification does not reach the level set out in the regulation, the institution must return the subsidy. These provisions apply for funding applications submitted for courses starting from 2006.

According to the Employment Act, regional training centres form a part of the Public Employment Service (PES). As a result of the last amendment of this act, the provisions on the establishment, management and legal standing of the regional training centres were incorporated into the Employment Act.<sup>9</sup> As part of the PES, regional training centres should be more involved in labour market training, especially the training of disadvantaged groups. To this end, financing is made available by the transfer of funds from the employment and rehabilitation sub-funds of the Labour Market Fund to a special budget earmarked for training. The amended act also gives the right to the Minister of Employment and Labour to lay down the tasks of the regional training centres, the methods of financing, the rules governing the use of the special training budget, cooperation with the offices of the PES on the provision of training financed by the Labour Market Fund, and the administration of the training centres. These entered into force on January 1, 2006 with the 23/2005 (Dec. 26) MoEL regulation.

According to these, regional training centres provide training free of charge to:

- disadvantaged people;
- employees whose employment cannot be maintained without training or who become redundant within one year and their employer has informed them and the local job centre in advance;

<sup>8</sup> Act LXXIV of 2005 on the Amendment of the CI of 2001 on Adult Education. The act was adopted by Parliament on June 27, 2005, in force from October 1, 2005.

<sup>9</sup> Act LXX of 2005 on the Amendment of the Act IV of 1991 on the Promotion of Employment and Unemployment Compensation. The Act was adopted by Parliament on June 27, 2005, and entered into force on November 1, 2005.

- those who do not belong to any of the above categories but receive their first vocational qualification – or in the case of people aged 50 years and over, the second qualification – or are disabled employees who take part in general, vocational or language training.

In addition, participants of labour market programmes and the employees of the PES – on the basis of the annual training plan of the PES – can also take part in training courses free of charge.

To find a job, it is important that one's qualification and competence match the needs of employers and the demands of the jobs market. Therefore supporting training remains a priority for the PES. However, to make training a real option for all adults who otherwise have little chance of finding employment, it is important to provide more adequate financial assistance for the duration of studies. As of November 1, 2005, the Employment Act sets the amount of training assistance at 60% of the statutory minimum wage. This is approximately HUF 10 thousand higher than the previous amount.

From November 1, 2005 the provisions on the administration of the training assistance and the selection of training providers of 6/1996 (July 16) MoL regulations were also modified (MoEL 2005). According to the new rules the job centre and the individual (job seeker) decide jointly regarding the training course. The job seeker then selects the training institution from a list of approved providers with the help of additional information given by the job centre. The tuition fee is transferred by the job centre directly to the training provider against an invoice issued to the name of the participant.

This amendment exempts the job centre from lengthy tendering procedures and thus makes the administration and management of training more flexible.

The “Take One Step Up” Programme has been designed and launched to promote participation in training that matches the demand of the economy. In the framework of the programme people are entitled to free of charge vocational training if they:

- did not complete elementary education but want to take part in vocational training;
- completed elementary education but have no vocational qualification;
- have a vocational qualification which has become obsolete;
- have general secondary education but would like to have a vocational qualification as well.

In these cases the full training cost is covered by the state. In addition, upon the successful completion of the course and on receiving the qualification, the individual is entitled to a one-off payment – a bonus – that is equal to the monthly amount of the minimum wage.



### *2.11 Extending the Premium Years Programme to the Business Sector*

The possibility of gradual retirement in the framework of the Premium Years Programme was extended to the private sector from October 1, 2005. To take part in the programme, employees need to have an employment record of at least 25 years and be within 3 years of retirement age. The employer agrees to provide part-time work of at least four hours/day. As for his or her part the employee agrees to renounce the severance payment and to receive a monthly salary reduced according to the working time. Given the fact that employers need to finance part-time wages, it is left to the discretion of the employer to introduce the programme.<sup>10</sup>

*Higher pension  
– with state subsidy*

The Ministry of Employment and Labour regulation that gives the possibility to the participants of the Premium Years Programme to retire under the same conditions as full-time employees entered into force the same day, October 1.<sup>11</sup> The employment sub-fund of the Labour Market Fund supplements the pension contributions up to the level of the full-time salary. Therefore, part-time employment has no negative impact on the amount of the future pension of the participants of the Premium Years Programme.

Supplementary pension contributions can be granted for employers in case when the Premium Years Programme involves 10% of the workforce but at least 5 people and at the same time they:

- carry out a restructuring involving either the upgrading of the production or the introduction of new services, and which involves the job of at least 30 employees, or
- hire new workers and as a result the headcount increases by 10% but by at least 5 people.

The amount of the supplementary contribution is the difference between the amount of contributions paid after the full-time salary prior to the Premium Years Programme and the part-time salary. However, the subsidy cannot be more than half the amount of the contributions payable for the double of the statutory minimum wage applicable at the time of submitting the claim.

Employers who benefit from the programme sign a contract with the job centre, and their compliance is checked regularly. If an employer is found guilty of breaching the terms set out in the contract, the job centre informs the Employment Office and the subsidy is terminated. The possibility to enter the Premium Years Programme will be open to private sector employees by the end of 2006.

### *2.12 The Reform of the Employment Subsidies for Disabled Workers*

The reform of the incentives and employment subsidies for disabled workers was already among the priorities of the Government's agenda. This entailed most importantly the amendment of the 8/1983 (June 29) Ministry of Health and Ministry of Finance joint regulation on the employment and social as-

10 Act LXXII of 2005 on the Amendment of Act XCCII of 2004 on the Premium Years Programme and the Special Workforce, and on the Amendment of Act XXXIX of 1998 on the Social Security Funds and the State Control of Social Security Bodies. The act was adopted on June 27, 2005 and entered into force on October 1, 2005.

11 – 13/2005. (August 26) MoEL regulation on the supplementary contributions facilitating the gradual retirement from the world of work. In force from October 1, 2005.

sistance of disabled workers in order to align the employment subsidies with the EU state-aid and competition rules.

This regulation initially provided for a single-scale subsidy for companies with disabled workers. Furthermore it listed public companies entitled to a higher subsidy. On the basis of the regulation, six sheltered companies were created. These and other designated sheltered companies received wage subsidies granted on an individual basis (between 135–550% of the average wage) until the end of 1995. From January 1, 1996 a new four-scale system was introduced where the aid intensity was regulated and was linked to the degree of disability. For the companies that were not designated as sheltered employers or social firms, the single-scale subsidy was replaced by a four-scale subsidy scheme in which the amount of the subsidy depended on the ratio of disabled workers.

The basis for the calculation of the subsidy was the average wage of the authorised headcount; however, it could not be higher than the statutory minimum wage. Between 1996–2000 sheltered companies received a 380–280% wage-subsidy for disabled workers belonging to disability categories 3–4 respectively. After January 1, 2001 the highest aid intensity was reduced to 320% and 225% respectively (MoEl 2004).

It has been long acknowledged that the system needed to be reformed for budgetary reasons, professional ones and reasons related to Hungary's EU membership. The system became distorted, unsustainable in terms of funding, and did not comply with the competition and state aid rules of the EU.

Finally, as a result of extensive professional debates and consultations, the new regulations came out in the framework of the “100 Steps” Programme. The new rules created a more transparent system that also conforms to the EU legislation.

The rules of vocational rehabilitation are laid down in the government regulation on the accreditation of employers.<sup>12</sup> The accreditation is an administrative procedure that can be initiated by the employer to assess the rehabilitation activities. At the end of the process the employer receives a certificate that gives entitlement to state subsidies. The accreditation is voluntary; however, to promote better employment in parallel to the phasing-in of the new rules, the certificate will be a requirement for receiving state subsidies from July 1, 2007.

Together with the accreditation, new rules were introduced for employment subsidies as well.<sup>13</sup> The essence of the reform is that employment subsidies are linked to the real and proven costs related to the employment of disabled workers.

The new subsidy system has three components. These are:

- the wage subsidy, intended to compensate for the lower productivity of disabled workers;

#### *Most important changes*

12 – 176/2005. (September 2) Government Regulation on the Accreditation of Employers Employing Disabled Workers and the Rules on the Control of Accredited Employers, in force from November 1, 2005. 14/2005. (September 2) MoEL Regulation on the Accreditation Procedure and Requirements, in force from November 1, 2005.

13 – 177/2005. (September 2) Government Regulation of State Subsidy for the Employment of Disabled Workers, in force from January 1, 2006. 15/2005. (September 2) MoEL Regulation on the Detailed Rules on the Award of Subsidies for the Employment of Disabled Workers, in force from January 1, 2006.

- the reimbursement of costs that cover certain expenditures related to the employment of disabled workers;
- the rehabilitation support for non-profit organisations that employ more severely disabled people who do not have a realistic chance of finding work on the open labour market. In this case, nearly all costs related to the employment of these workers can be reimbursed.

The scope of employees and employers is also extended to include:

- people whose loss of working capacity is less than 40%, but because of their condition their employment cannot be maintained without vocational rehabilitation; according to the earlier rules only workers with more than 40% working capacity loss were eligible for subsidy;
- employers with less than 20 employees, including private entrepreneurs, SMEs and NGOs.

With the introduction of the new system:

- the overall amount of subsidy for each disabled worker has not decreased;
- a more predictable and transparent system has been created to promote the employment of people who face disadvantages on the labour market because of their physical or mental impairments;
- employers providing sheltered and integrated employment are entitled to the same wage subsidy;
- rules are in line with the EU competition and state aid regulations.

### 2.13 The START Programme

Chapter 1.2 of this paper discussed various incentives that promote the employment of school leavers as of January 2005. These include the paid internship and the 50% reduction of social security contributions enacted by Act CXXIII of 2004 that make the hiring of young people more attractive for employers. It turned out, however, that employers do not consider the level of support high enough. They also found the whole procedure overly bureaucratic, including the fact that the subsidy is reimbursed at the end of the 9-month period and that there is a requirement to maintain the employment relationship after that point. (MoEL 2005/a)

In reaction to these subsidies introduced at the beginning of 2005 were replaced by the START Programme valid from October 1, 2005. The target group of the programme are young people under the age of 25 years or – in the case of people with higher education – 30 years who finished or temporarily left school and entered their first job.<sup>14</sup> Their employers are eligible for a subsidy during a period of 2 years, as opposed to the 9 months under the previous regulation. The subsidy takes the form of a reduction of contributions: employers have to pay 15% as contributions in the first year and 25% in the second year. Normally contributions reach approximately 36% of la-

*It is worthwhile to hire school leavers*

<sup>14</sup> Act LXXIII of 2005 on Incentives to Promote the Employment of School Leavers, Unemployed People Aged 50 years and over and People Returning to Work after child care or nursing, and on the Amendment of Act CXXIII on the Paid Internship Employment. The act was adopted on June 27, 2005 and entered into force on October 1, 2005.

bour cost, including 29% social security contributions, 3% employers' contribution and the fixed-sum health insurance contribution. The reduction of contributions can be used for wages equalling up to 150% of the minimum wage, or 200% in the case of young graduates. This does not mean, however, that the actual wage cannot be higher than this amount: only the amount of the subsidy is capped at these levels.

The subsidy can be taken up on the basis of the so-called START card issued by the tax authority. This card certifies that its holder is eligible for the discount. All young people under the age of 25 (or 30 in the case of people with higher education) are eligible to receive the card and use it for regular employment or paid internship.

The START card can be used for two years from the date of issue with the same or different employers and within the indicated age limits. Thus, the discount is directly linked to the young worker but it can only be used by the employer. The young person might decide not to obtain the card and use the discount. During the employment period employers keep the card. In the event that the young person works (part-time) for more than one employer (for at least 4 hours/day) the subsidy can be used by the employer to whom the card is submitted. There is no obligation to maintain the employment relationship after the termination of the discount.

### *2.14 Increasing Employment and Promoting Flexibility*

From January 2006 micro-, small- and medium-sized enterprises and NGOs with less than 250 employees are exempt from the employers' contributions if they have been hiring registered unemployed people for 3 months.<sup>15</sup> The reduction is for one year during which the new workers should be retained and their employment should be maintained for an additional year. The discount covers the fixed-sum health insurance contribution, the social security contribution payable by the employer and the employers' contribution for unemployment insurance. The basis for the reduction shall be up to 130% of the minimum wage for full-time employees and correspondingly less for part-time workers.

The Government envisages that this measure would help 300 thousand registered unemployed persons to find employment and give the opportunity to 900 thousand SMEs to grow by hiring new workers.

<sup>15</sup> Act CLXXX of 2005 on Measures to Increase Employment and Promote the Flexibility of Employment. The act was adopted on December 19, 2005 and entered into force on January 1, 2006.

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# **STATISTICAL DATA**

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**Statistical Data**

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**Data Sources**

FH BT	NLC Wage Survey
FH REG	NLC unemployment register
FH SREG	NLC unemployment benefit register
FH PROG	NLC Short-term Labour Market Forecast Survey
KSH	Table compiled from regular publications
KSH IMS	CSO institution-based labour statistics
KSH MEF	CSO Labour Force Survey
KSH MEM	CSO Labour Force Account
MC	Microcensus
MNB	Hungarian National Bank
NSZ	Population Census
NYUFIG	Pension Administration
OM STAT	Ministry of Education, Educational Statistics
TB	Social security records

Table 1.1: Basic economic indicators

Year	GDP	Industrial production	Real earnings <sup>1</sup>	Employment	Consumer price index	Unemployment rate
	Previous year = 100					
1989	100.7	95.0	99.7	98.2	117.0	...
1990	96.5	90.7	94.3	97.2	128.9	...
1991	88.1	81.6	93.0	92.6	135.0	...
1992	96.9	84.2	98.6	90.3	123.0	9.8
1993	99.4	103.9	96.1	93.8	122.5	11.9
1994	102.9	109.7	107.2	98.0	118.8	10.7
1995	101.5	104.6	87.8	98.1	128.2	10.2
1996	101.3	103.2	95.0	99.1	123.6	9.9
1997	104.6	111.1	104.9	100.1	118.3	8.7
1998	104.9	112.5	103.6	101.4	114.3	7.8
1999	104.2	110.4	102.5	103.2	110.0	7.0
2000	105.2	118.1	101.5	101.0	109.8	6.4
2001	103.8	103.6	106.4	100.3	109.2	5.7
2002	103.5	102.8	113.6	100.1	105.3	5.8
2003	102.9	106.4	109.2	101.3	104.7	5.9
2004	104.1 <sup>a</sup>	108.3	98.9	99.4	106.8	6.1

<sup>a</sup> Preliminary.

Source: Employment: 1989–1991: KSH MEM; 1992–: KSH MEF. Other data: KSH.

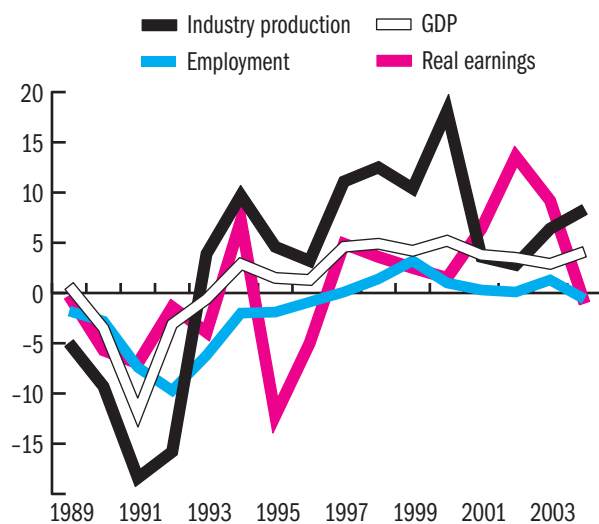


Figure 1.1: Annual changes of basic economic indicators

Table 2.1: Population\*

Year	In thousands	1992 = 100	Annual changes	Dependency rate	
				Total <sup>1</sup>	Old age <sup>2</sup>
				population	
1980	10,709	103.6	-	0.54	0.21
1989	10,421	100.8	-	0.51	0.20
1990	10,375	100.4	-0.2	0.51	0.20
1991	10,373	100.0	0.0	0.50	0.20
1992	10,374	100.0	0.0	0.49	0.20
1993	10,365	99.9	-0.1	0.49	0.20
1994	10,350	99.8	-0.1	0.48	0.21
1995	10,337	99.6	-0.1	0.48	0.21
1996	10,321	99.5	-0.1	0.48	0.21
1997	10,301	99.3	-0.2	0.47	0.21
1998	10,280	99.1	-0.2	0.47	0.21
1999	10,253	98.8	-0.3	0.47	0.21
2000	10,221	98.5	-0.3	0.47	0.21
2001	10,200	98.3	-0.2	0.46	0.22
2002	10,175	98.1	-0.2	0.46	0.22
2003	10,142	97.8	-0.3	0.46	0.22
2004	10,117	97.5	-0.3	0.46	0.23
2005	10,098	97.3	-0.2	0.45	0.23

\* January 1<sup>th</sup>.

<sup>1</sup> (population age 0–14 + 65 and above) / (population age 15–64)

<sup>2</sup> population age 65 and above) / (population age 15–64)

Note: Recalculated on the basis of Population Census 2001.

Source: KSH.

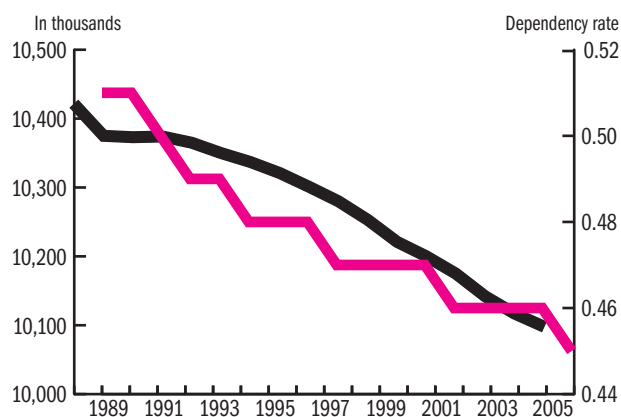


Figure 2.1: Population on 1<sup>st</sup> January

Table 2.2: Population by age groups – in thousands\*

Year	0-14	15-24	25-54	55-64	65+	Total
	years old					
1980	2,341.2	1,464.4	4,399.8	1,054.7	1,449.4	10,709.5
1990	2,130.5	1,445.5	4,231.4	1,193.5	1,373.9	10,374.8
1991	2,068.0	1,510.3	4,223.1	1,176.0	1,395.7	10,373.2
1992	2,018.7	1,558.1	4,222.6	1,159.4	1,414.7	10,373.6
1993	1,972.3	1,587.0	4,230.4	1,148.5	1,426.9	10,365.0
1994	1,929.6	1,601.5	4,240.6	1,136.2	1,442.2	10,350.0
1995	1,891.7	1,610.1	4,250.6	1,126.2	1,458.0	10,336.7
1996	1,858.8	1,609.7	4,253.6	1,120.8	1,478.3	10,321.2
1997	1,824.4	1,607.2	4,260.3	1,118.9	1,490.5	10,301.2
1998	1,792.8	1,593.0	4,262.6	1,124.4	1,506.9	10,279.7
1999	1,762.4	1,573.2	4,268.5	1,127.9	1,521.4	10,253.4
2000	1,729.2	1,526.5	4,291.4	1,143.4	1,531.1	10,221.6
2001	1,692.0	1,480.1	4,338.5	1,144.7	1,545.0	10,200.3
2002	1,660.1	1,436.9	4,378.0	1,147.9	1,551.9	10,174.9
2003	1,633.7	1,392.5	4,390.8	1,166.1	1,559.2	10,142.4
2004	1,606.1	1,355.0	4,401.6	1,186.9	1,567.1	10,116.7
2005	1,579.7	1,322.0	4,409.1	1,209.2	1,577.6	10,097.6

\* January 1<sup>st</sup>. Recalculated on the basis of Population Census 2001.

Source: KSH.

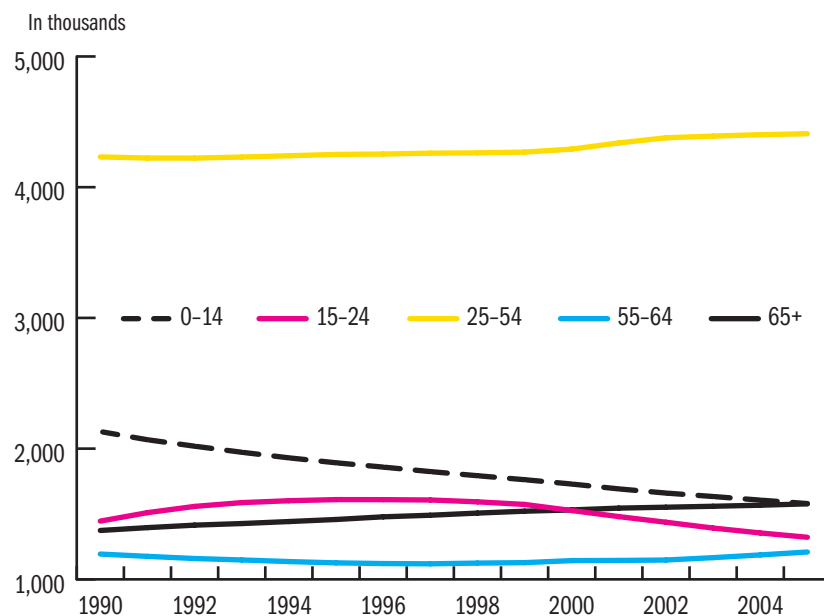


Figure 2.2: Population by age groups

**Table 2.3: Male population by age groups – in thousands\***

	0-14	15-24	25-59	60-64	65+	Total
Year	years old					
1980	1,205.4	749.9	2,475.6	170.5	587.3	5,188.7
1990	1,090.4	740.3	2,366.9	259.9	527.5	4,984.9
1991	1,057.9	773.4	2,355.5	258.5	534.5	4,979.8
1992	1,032.3	797.7	2,350.4	255.5	539.8	4,975.7
1993	1,008.7	812.2	2,349.0	253.9	542.5	4,966.3
1994	986.8	819.9	2,350.3	250.5	546.0	4,953.4
1995	967.4	824.0	2,353.3	246.1	550.8	4,941.6
1996	950.5	823.7	2,358.3	239.5	557.2	4,929.2
1997	933.0	822.4	2,366.2	233.9	560.5	4,916.0
1998	916.8	815.4	2,375.5	229.3	564.7	4,901.8
1999	901.5	805.0	2,383.2	226.1	568.6	4,884.4
2000	885.0	780.9	2,403.8	224.8	570.8	4,865.2
2001	865.7	757.0	2,425.2	228.9	574.2	4,851.0
2002	850.1	733.9	2,446.1	233.0	573.8	4,837.0
2003	836.8	711.3	2,456.5	239.9	574.0	4,818.5
2004	823.0	691.9	2,470.3	244.4	574.5	4,804.1
2005	809.5	674.6	2,480.0	252.2	576.8	4,793.1

\* See: Table 2.2.

Source: KSH.

**Table 2.4: Female population by age groups – in thousands\***

	0-14	15-24	25-54	55-64	65+	Total
Year	years old					
1980	1,135.8	714.5	2,232.8	365.3	1,072.4	5,520.8
1990	1,040.1	705.2	2,144.4	327.6	1,172.5	5,389.9
1991	1,010.0	737.0	2,139.8	321.3	1,185.3	5,393.3
1992	986.5	760.4	2,138.1	318.1	1,194.9	5,397.9
1993	963.6	774.8	2,141.2	314.4	1,204.7	5,398.7
1994	942.8	781.6	2,146.2	313.1	1,212.9	5,396.6
1995	924.4	786.2	2,151.0	312.6	1,221.0	5,395.1
1996	908.3	786.0	2,152.4	316.4	1,228.8	5,392.0
1997	891.4	784.8	2,155.6	318.3	1,235.1	5,385.3
1998	876.0	777.6	2,156.0	324.4	1,243.9	5,378.0
1999	861.0	768.2	2,159.3	326.7	1,253.8	5,369.0
2000	844.3	745.6	2,170.5	334.8	1,261.3	5,356.5
2001	826.3	723.1	2,193.4	330.4	1,276.1	5,349.3
2002	810.0	703.0	2,211.6	328.6	1,284.7	5,337.9
2003	796.9	681.2	2,217.4	330.7	1,297.8	5,323.9
2004	783.1	663.1	2,220.8	338.5	1,307.1	5,312.6
2005	770.2	647.4	2,221.9	341.7	1,323.1	5,304.3

\* See: Table 2.2.

Source: KSH.

Table 3.1: Labour force participation of the population above 14 years\*

Year	Population at working age							Population above working age				
	Em- ployed	Unem- ployed	Pen- sioner	Inactive				Total	Em- ployed	Unem- ployed	Pen- sioner, other inactive	Total
				Full time student	On child care leave	Other inactive	Inactive total					
1980	4,887.9	0.0	300.8	370.1	259.0	339.7	1,269.6	6,157.5	570.3	0.0	1,632.1	2,202.4
1990	4,534.3	62.4	284.3	548.9	249.7	297.5	1,380.4	5,977.1	345.7	0.0	1,944.9	2,290.6
1991	4,270.5	253.3	335.6	578.2	259.8	317.1	1,490.7	6,014.5	249.5	0.0	2,045.2	2,294.7
1992	3,898.4	434.9	392.7	620.0	262.1	435.9	1,710.7	6,044.0	184.3	9.8	2,101.7	2,295.8
1993	3,689.5	502.6	437.5	683.9	270.5	480.1	1,872.0	6,064.1	137.5	16.3	2,141.2	2,295.0
1994	3,633.1	437.4	476.5	708.2	280.9	540.7	2,006.3	6,076.8	118.4	11.9	2,163.8	2,294.1
1995	3,571.3	410.0	495.2	723.4	285.3	496.1	2,000.0	5,981.3	107.5	6.4	2,180.6	2,294.5
1996	3,546.1	394.0	512.7	740.0	289.2	499.4	2,041.3	5,981.4	102.1	6.1	2,184.6	2,292.8
1997	3,549.5	342.5	542.9	752.0	289.0	499.9	2,083.8	5,975.8	96.9	6.3	2,189.0	2,292.2
1998	3,608.5	305.5	588.8	697.0	295.5	565.7	2,147.0	6,061.0	89.3	7.5	2,197.6	2,294.4
1999	3,701.0	283.3	534.7	675.6	298.5	549.8	2,058.6	6,042.9	110.4	1.4	2,185.2	2,297.0
2000	3,745.9	261.4	517.9	721.7	281.4	571.4	2,092.4	6,099.7	130.3	2.3	2,268.0	2,400.6
2001	3,742.6	231.7	516.3	717.9	286.6	601.6	2,122.4	6,096.7	140.7	2.4	2,271.8	2,414.9
2002	3,719.6	235.7	507.1	738.3	286.8	593.0	2,125.2	6,080.5	164.1	3.2	2,263.9	2,431.2
2003	3,719.0	239.6	485.0	730.7	278.2	603.7	2,097.6	6,056.2	202.9	4.9	2,245.6	2,453.4
2004	3,663.1	247.2	480.5	739.8	271.0	633.8	2,125.1	6,035.4	237.3	5.7	2,236.1	2,479.1

\* In thousands. Annual average figures.

Note: Till 1999 updated figure based on 1990 population census since 2000 based on 2001 population census. 'Employed' includes conscripts and working pensioner. Data on students for 1995–97 have been estimated using projected population weights. 'Other inactive' is a residual category.

Source: Pensioners: 1980–91: NYUFIG, 1992–: KSH MEF. Child care recipients: TB. Unemployment: 1990–91: FH REG, 1992–: KSH MEF.



Table 3.2: Labour force participation of the population above 14 years – males\*

Year	Population at working age								Population above working age			
	Em- ployed	Unem- ployed	Pen- sioner	Inactive				Total	Em- ployed	Unem- ployed	Pen- sioner, other inactive	Total
				Full time student	On child care leave	Other inactive	Inactive total					
1980	2,750.5	0.0	173.8	196.3	0.0	99.1	469.2	3,219.7	265.3	0.0	491.8	757.1
1990	2,524.3	37.9	188.4	284.2	1.2	80.3	554.1	3,116.3	123.7	0.0	665.5	789.2
1991	2,351.6	150.3	218.7	296.5	1.5	115.0	631.7	3,133.6	90.4	0.0	700.7	791.1
1992	2,153.1	263.2	252.0	302.4	1.7	174.8	730.9	3,147.2	65.1	3.2	722.1	790.4
1993	2,029.1	311.5	263.2	346.9	2.0	203.3	815.4	3,156.0	47.9	4.5	735.7	788.1
1994	2,013.4	270.0	277.6	357.1	3.7	239.6	878.0	3,161.4	41.6	3.8	740.0	785.4
1995	2,012.5	259.3	282.2	367.4	4.9	237.8	892.3	3,164.1	37.1	2.1	742.6	781.8
1996	2,007.4	242.4	291.9	372.8	3.3	248.3	916.3	3,166.1	28.9	1.3	746.3	776.5
1997	2,018.0	212.2	306.0	377.6	1.5	251.6	936.7	3,166.9	25.5	1.9	743.5	770.9
1998	2,015.5	186.5	345.4	350.4	1.0	264.2	961.0	3,163.0	26.2	2.8	737.3	766.3
1999	2,068.4	170.3	312.7	338.8	4.2	261.5	917.2	3,155.9	34.7	0.4	727.2	762.3
2000	2,086.0	158.2	315.2	358.2	4.1	261.7	939.2	3,183.4	39.8	0.7	758.8	799.3
2001	2,087.6	141.6	311.0	353.4	4.3	283.2	951.9	3,181.1	41.1	0.9	763.0	805.0
2002	2,080.4	137.3	307.5	370.3	5.0	273.4	956.2	3,173.9	45.2	0.7	764.4	810.3
2003	2,073.5	137.6	293.6	367.9	4.3	288.1	953.9	3,165.0	53.0	0.9	762.5	816.4
2004	2,052.7	136.2	293.5	371.2	4.6	300.2	969.5	3,158.4	64.6	0.6	758.8	824.0

\* See: Table 3.1.

Source: Pensioners: 1980–91: NYUFIG, 1992–: KSH MEF. Child care recipients: TB. Unemployment: 1990–91: FH REG, 1992–: KSH MEF.

Table 3.3: Labour force participation of the population above 14 years – females\*

Year	Population at working age								Population above working age			
	Em- ployed	Unem- ployed	Pen- sioner	Inactive				Total	Em- ployed	Unem- ployed	Pen- sioner, other inactive	Total
				Full time student	On child care leave	Other inactive	Inactive total					
1980	2,137.4	0.0	127.0	173.8	259.0	240.6	800.4	2,937.8	305.0	0.0	1,140.3	1,445.3
1990	2,010.0	24.5	95.8	264.7	248.5	217.3	826.3	2,860.8	222.0	0.0	1,279.4	1,501.4
1991	1,918.9	103.1	116.9	281.8	258.3	201.9	858.9	2,880.9	159.1	0.0	1,344.5	1,503.6
1992	1,745.3	171.7	140.8	317.6	260.4	261.1	979.9	2,896.9	119.2	6.6	1,379.6	1,505.4
1993	1,660.4	191.1	174.3	337.0	268.5	276.8	1,056.6	2,908.1	89.6	11.8	1,405.5	1,506.9
1994	1,619.7	167.4	198.9	351.1	277.2	301.1	1,128.3	2,915.4	76.8	8.1	1,423.8	1,508.7
1995	1,558.8	150.7	213.0	356.0	280.4	358.3	1,207.7	2,917.2	70.4	4.3	1,438.0	1,512.7
1996	1,538.7	151.6	220.7	367.2	285.9	351.1	1,224.9	2,915.2	73.2	4.8	1,438.3	1,516.3
1997	1,531.5	130.3	236.9	374.4	287.5	348.3	1,247.1	2,908.9	71.4	4.4	1,445.3	1,521.1
1998	1,593.0	119.0	243.4	346.6	294.5	301.5	1,186.0	2,898.0	63.1	4.7	1,460.3	1,528.1
1999	1,632.6	113.0	222.0	336.8	291.1	288.3	1,138.2	2,883.8	75.8	1.0	1,458.0	1,534.8
2000	1,659.9	103.2	202.7	363.5	277.3	309.7	1,153.2	2,916.3	90.5	1.6	1,509.2	1,601.3
2001	1,655.0	90.1	205.3	364.5	282.3	318.3	1,170.4	2,915.5	99.6	1.5	1,508.8	1,609.9
2002	1,639.2	98.4	199.6	368.0	281.8	319.6	1,169.0	2,906.6	118.9	2.5	1,499.5	1,620.9
2003	1,645.6	102.0	191.4	362.8	273.9	315.6	1,143.7	2,891.2	149.9	4.0	1,483.2	1,637.1
2004	1,610.2	111.0	186.8	368.6	266.4	333.6	1,155.4	2,876.6	172.8	5.1	1,477.3	1,655.2

\* See: Table 3.1.

Source: Pensioners: 1980–91: NYUFIG, 1992–: KSH MEF. Child care recipients: TB. Unemployment: 1990–91: FH REG, 1992–: KSH MEF.

**Table 3.4: Labour force participation of the population above 14 years – per cent**

Year	Population at working age								Population above working age				
	Em- ployed	Unem- ployed	Inactive					Total	Em- ployed	Unem- ployed	Pen- sioner, other inactive	Total	
			Pen- sioner	Full time student	On child care leave	Other inactive	Inactive total						
1980	79.4	0.0	4.9	6.0	4.2	5.5	20.6	100.0	25.9	0.0	74.1	100.0	
1990	75.9	1.0	4.8	9.2	4.2	5.0	23.1	100.0	15.1	0.0	84.9	100.0	
1995	59.7	6.9	8.3	12.1	4.8	8.3	33.4	100.0	4.7	0.3	95.0	100.0	
1996	59.3	6.6	8.6	12.4	4.8	8.3	34.1	100.0	4.5	0.3	95.3	100.0	
1997	59.4	5.7	9.1	12.6	4.8	8.4	34.9	100.0	4.2	0.3	95.5	100.0	
1998	59.5	5.0	9.7	11.5	4.9	9.3	35.4	100.0	3.9	0.3	95.8	100.0	
1999	61.2	4.7	8.8	11.2	4.9	9.1	34.1	100.0	4.8	0.1	95.1	100.0	
2000	61.4	4.3	8.5	11.8	4.6	9.4	34.3	100.0	5.4	0.1	94.5	100.0	
2001	61.4	3.8	8.5	11.8	4.7	9.9	34.8	100.0	5.8	0.1	94.1	100.0	
2002	61.2	3.9	8.3	12.1	4.7	9.8	35.0	100.0	6.7	0.1	93.1	100.0	
2003	61.4	4.0	8.0	12.1	4.6	10.0	35.0	100.0	8.3	0.2	91.5	100.0	
2004	60.7	4.1	8.0	12.3	4.5	10.5	35.2	100.0	9.6	0.2	90.2	100.0	

Source: Pensioners: 1980–91: NYUFIG, 1992–: KSH MEF. Child care recipients: TB. Unemployment: 1990–91: FH REG, 1992–: KSH MEF.

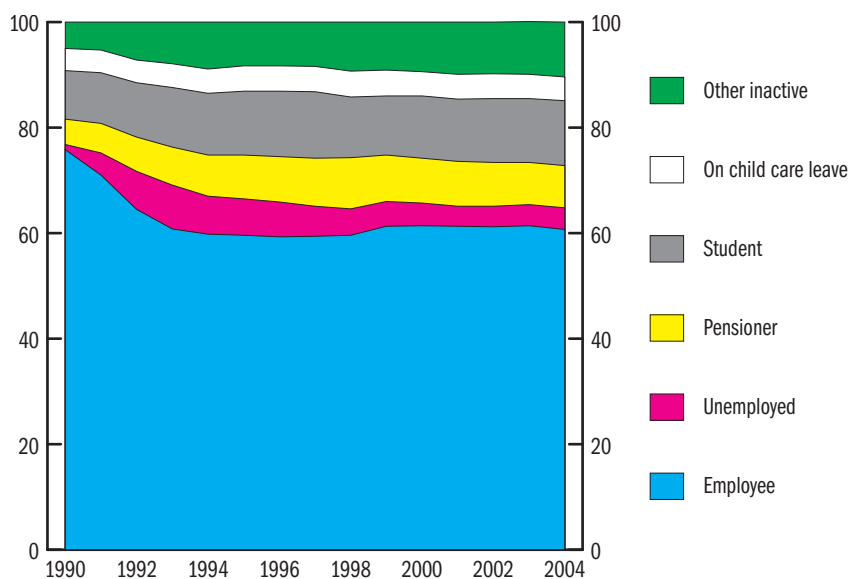
**Figure 3.1: Labour force participation of population at working age, total**

Table 3.5: Labour force participation of the population above 14 years – males, per cent

Year	Population at working age							Population above working age				
	Em- ployed	Unem- ployed	Pen- sioner	Inactive				Total	Em- ployed	Unem- ployed	Pen- sioner, other inactive	Total
				Full time student	On child care leave	Other inactive	Inactive total					
1980	85.4	0.0	5.4	6.1	0.0	3.1	14.6	100.0	35.0	0.0	65.0	100.0
1990	81.0	1.2	6.0	9.1	0.0	2.6	17.8	100.0	15.7	0.0	84.3	100.0
1995	63.6	8.2	8.9	11.6	0.2	7.5	28.2	100.0	4.7	0.3	95.0	100.0
1996	63.4	7.7	9.2	11.8	0.1	7.8	28.9	100.0	3.7	0.2	96.1	100.0
1997	63.7	6.7	9.7	11.9	0.0	7.9	29.6	100.0	3.3	0.2	96.4	100.0
1998	63.7	5.9	10.9	11.1	0.0	8.4	30.4	100.0	3.4	0.4	96.2	100.0
1999	65.5	5.4	9.9	10.7	0.1	8.3	29.1	100.0	4.6	0.1	95.4	100.0
2000	65.5	5.0	9.9	11.3	0.1	8.2	29.5	100.0	5.0	0.1	94.9	100.0
2001	65.6	4.5	9.8	11.1	0.1	8.9	29.9	100.0	5.1	0.1	94.8	100.0
2002	65.5	4.3	9.7	11.7	0.2	8.6	30.1	100.0	5.6	0.1	94.3	100.0
2003	65.5	4.3	9.3	11.6	0.1	9.1	30.1	100.0	6.5	0.1	93.4	100.0
2004	65.0	4.3	9.3	11.8	0.1	9.5	30.7	100.0	7.8	0.1	92.1	100.0

Source: Pensioners: 1980–91: NYUFIG, 1992–: KSH MEF. Child care recipients: TB. Unemployment: 1990–91: FH REG, 1992–: KSH MEF.

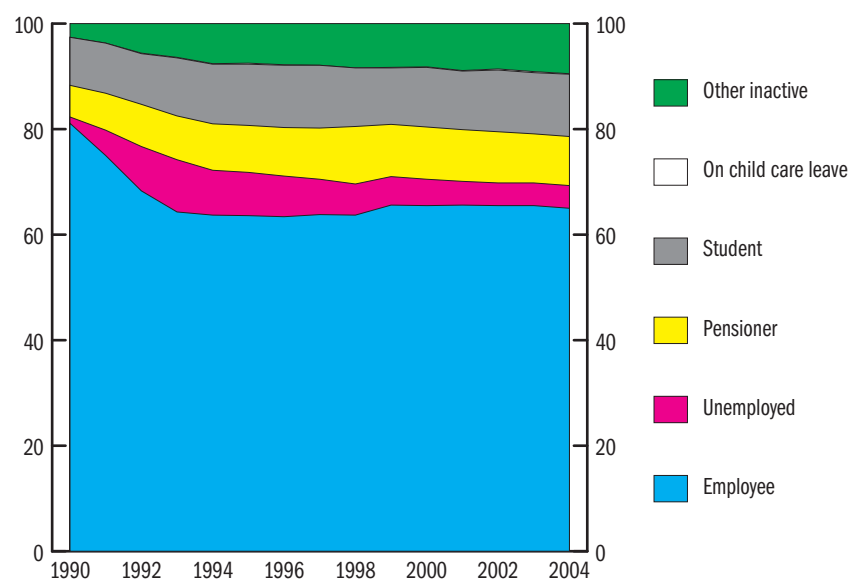


Figure 3.2: Labour force participation of population of working age, males

**Table 3.6: Labour force participation of the population above 14 years – females, per cent**

Year	Population at working age								Population above working age			
	Em- ployed	Unem- ployed	Pen- sioner	Inactive				Total	Em- ployed	Unem- ployed	Pen- sioner, other inactive	Total
				Full time student	On child care leave	Other inactive	Inactive total					
1980	72.8	0.0	4.3	5.9	8.8	8.2	27.2	100.0	21.1	0.0	78.9	100.0
1990	70.3	0.9	3.3	9.3	8.7	7.6	28.9	100.0	14.8	0.0	85.2	100.0
1995	53.4	5.2	7.3	12.2	9.6	12.3	41.4	100.0	4.7	0.3	95.1	100.0
1996	52.8	5.2	7.6	12.6	9.8	12.0	42.0	100.0	4.8	0.3	94.9	100.0
1997	52.6	4.5	8.1	12.9	9.9	12.0	42.9	100.0	4.7	0.3	95.0	100.0
1998	55.0	4.1	8.4	12.0	10.2	10.4	40.9	100.0	4.1	0.3	95.6	100.0
1999	56.6	3.9	7.7	11.7	10.1	10.0	39.5	100.0	4.9	0.1	95.0	100.0
2000	56.9	3.5	7.0	12.5	9.5	10.6	39.5	100.0	5.7	0.1	94.2	100.0
2001	56.8	3.1	7.0	12.5	9.7	10.9	40.1	100.0	6.2	0.1	93.7	100.0
2002	56.4	3.4	6.9	12.7	9.7	11.0	40.2	100.0	7.3	0.2	92.5	100.0
2003	56.9	3.5	6.6	12.5	9.5	10.9	39.6	100.0	9.2	0.2	90.6	100.0
2004	56.0	3.9	6.5	12.8	9.3	11.6	40.2	100.0	10.4	0.3	89.3	100.0

Source: Pensioners: 1980–91: NYUFIG, 1992–: KSH MEF. Child care recipients: TB. Unemployment: 1990–91: FH REG, 1992–: KSH MEF.

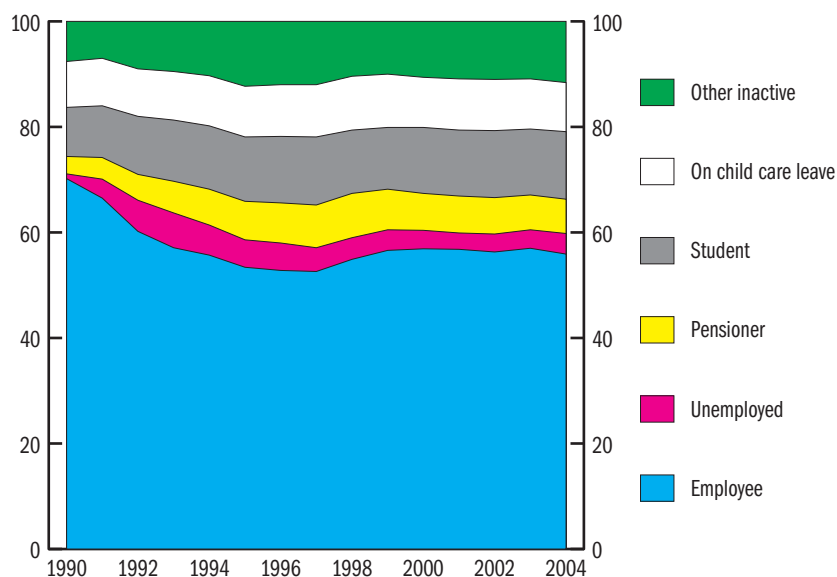
**Figure 3.3: Labour force participation of population of working age, females**

Table 3.7: 15-64 by labour market status (self- categorised) in thousands

	1999	2000	2001	2001 <sup>a</sup>	2002 <sup>a</sup>	2003 <sup>a</sup>	2004 <sup>a</sup>
<b>Total</b>							
In work	3,710.8	3,778.9	3,804.1	3,827.4	3,827.1	3,843.6	3,834.4
Unemployed	473.5	448.1	411.6	414.5	410.4	431.8	451.0
Student (pupils)	753.9	749.9	716.4	739.9	763.1	767.7	783.8
Pensioner	1,079.7	991.8	968.9	990.8	940.4	856.4	800.3
Disabled	195.5	223.8	245.4	251.0	284.4	338.3	370.4
On child care leave	289.0	272.4	280.1	272.3	278.3	281.7	274.7
Dependent	167.5	165.9	168.9	170.7	160.4	181.7	133.3
Out of work for other reason	113.1	133.6	181.8	184.7	185.7	181.7	178.4
Total	6,783.0	6,764.4	6,777.2	6,851.3	6,849.8	6,836.3	6,826.3
<b>Males</b>							
In work	2,042.7	2,075.4	2,091.8	2,089.5	2,090.2	2,087.3	2,082.8
Unemployed	286.1	270.4	255.7	255.2	239.3	244.2	247.7
Student (pupils)	375.9	371.4	353.0	363.6	380.9	383.7	391.1
Pensioner	426.4	388.6	377.3	386.3	368.1	337.4	322.5
Disabled	106.0	120.4	133.1	134.2	148.1	169.9	184.5
On child care leave	3.9	3.8	4.0	4.0	4.9	4.7	4.9
Dependent	6.5	5.3	6.3	6.3	5.1	5.3	6.0
Out of work for other reason	67.4	77.6	99.9	100.8	101.2	97.5	89.6
Total	3,314.9	3,312.9	3,321.1	3,339.9	3,337.8	3,330.0	3,329.1
<b>Females</b>							
In work	1,668.1	1,703.5	1,712.3	1,737.9	1,736.9	1,756.3	1,751.6
Unemployed	187.4	177.7	155.9	159.3	171.1	187.6	203.3
Student (pupils)	378.0	378.5	363.4	376.3	382.2	384.0	392.7
Pensioner	653.3	603.2	591.6	604.5	572.3	519.0	477.8
Disabled	89.5	103.4	112.3	116.8	136.3	168.4	185.9
On child care leave	285.1	268.6	276.1	268.3	273.4	277.0	269.8
Dependent	161.0	160.6	162.6	164.4	155.3	129.8	127.3
Out of work for other reason	45.7	56.0	81.9	83.9	84.5	84.2	88.8
Total	3,468.1	3,451.5	3,456.1	3,511.4	3,512.0	3,506.3	3,497.2

<sup>a</sup> Marked data are weighted on the basis of the 2001 Population Census. 2001 is existing as a "Janus year".

Source: KSH MEF.

Table 3.8: Population aged 15-64 by labour market status (self- categorised),percentage

	1999	2000	2001	2001 <sup>a</sup>	2002 <sup>a</sup>	2003 <sup>a</sup>	2004 <sup>a</sup>
<b>Total</b>							
In work	54.7	55.9	56.1	55.9	55.9	56.2	56.2
Unemployed	7.0	6.6	6.1	6.0	6.0	6.3	6.6
Student (pupils)	11.1	11.1	10.6	10.8	11.1	11.2	11.5
Pensioner	15.9	14.7	14.3	14.5	13.7	12.5	11.7
Disabled	2.9	3.3	3.6	3.7	4.2	4.9	5.4
On child care leave	4.3	4.0	4.1	4.0	4.1	4.1	4.0
Dependent	2.5	2.5	2.5	2.5	2.3	2.7	2.0
Out of work for other reason	1.7	2.0	2.7	2.7	2.7	2.7	2.6
Total	100.0	99.7	99.9	101.0	101.0	100.8	100.6
<b>Males</b>							
In work	61.6	62.6	63.0	62.6	62.6	62.7	62.6
Unemployed	8.6	8.2	7.7	7.6	7.2	7.3	7.4
Student (pupils)	11.3	11.2	10.6	10.9	11.4	11.5	11.7
Pensioner	12.9	11.7	11.4	11.6	11.0	10.1	9.7
Disabled	3.2	3.6	4.0	4.0	4.4	5.1	5.5
On child care leave	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Dependent	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Out of work from other reason	2.0	2.3	3.0	3.0	3.0	2.9	2.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Females</b>							
In work	48.1	49.4	49.5	49.5	49.5	50.1	50.1
Unemployed	5.4	5.1	4.5	4.5	4.9	5.4	5.8
Student (pupils)	10.9	11.0	10.5	10.7	10.9	11.0	11.2
Pensioner	18.8	17.5	17.1	17.2	16.3	14.8	13.7
Disabled	2.6	3.0	3.2	3.3	3.9	4.8	5.3
On child care leave	8.2	7.8	8.0	7.6	7.8	7.9	7.7
Dependent	4.6	4.7	4.7	4.7	4.4	3.7	3.6
Out of work for other reason	1.3	1.6	2.4	2.4	2.4	2.4	2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> See: Table 3.7.

Source: KSH MEF.



Table 4.1: Employed

Year	1000 prs	1992 = 100	Employment ratio <sup>1</sup>
1980	5,458.2	133.7	65.3
1990	4,880.0	119.5	59.0
1991	4,520.0	110.7	54.4
1992	4,082.7	100.0	49.0
1993	3,827.0	93.7	45.8
1994	3,751.5	91.9	44.8
1995	3,678.8	90.1	43.9
1996	3,648.2	89.4	43.6
1997	3,646.4	89.3	43.6
1998	3,697.8	90.6	44.3
1999	3,811.4	93.4	45.7
2000	3,849.1	94.3	46.2
2001	3,859.5	94.5	...
2001 <sup>a</sup>	3,883.3	95.1	45.6
2002 <sup>a</sup>	3,883.7	95.1	45.6
2003 <sup>a</sup>	3,921.9	96.1	46.2
2004 <sup>a</sup>	3,900.4	95.5	45.8

<sup>1</sup> Per cent of the population above 15 year.

<sup>a</sup> See: Table 3.7.

Source: 1980–91: KSH MEM, 1992– KSH MEF.

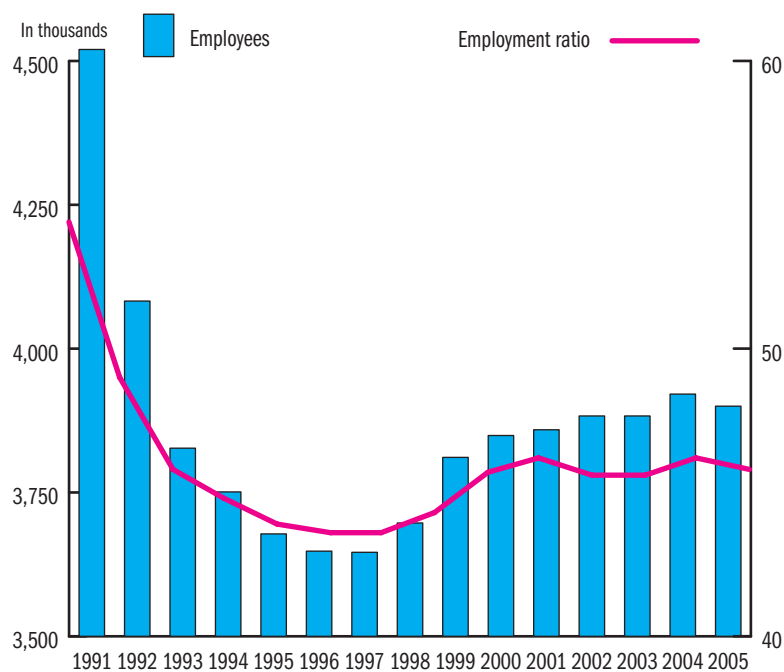


Figure 4.1: Employed

Table 4.2: Employed by gender

Year	Males		Females		Share of females (%)
	1000 prs	1992 = 100	1000 prs	1992 = 100	
1980	3,015.8	136.0	2,442.4	131.0	44.7
1990	2,648.0	119.4	2,232.0	119.7	45.7
1991	2,442.0	110.1	2,078.0	111.5	46.0
1992	2,218.2	100.0	1,864.5	100.0	45.7
1993	2,077.0	93.6	1,750.0	93.9	45.7
1994	2,055.0	92.6	1,696.5	91.0	45.2
1995	2,049.6	92.4	1,629.2	87.4	44.3
1996	2,036.3	91.8	1,611.9	86.5	44.2
1997	2,043.5	92.1	1,602.9	86.0	44.0
1998	2,041.7	92.0	1,656.1	88.8	44.8
1999	2,103.1	94.8	1,708.4	91.6	44.8
2000	2,122.4	95.7	1,726.7	92.6	44.9
2001	2,130.6	96.1	1,728.9	92.7	44.8
2001 <sup>a</sup>	2,128.7	96.0	1,754.6	94.1	45.2
2002 <sup>a</sup>	2,125.6	95.8	1,758.1	94.3	45.3
2003 <sup>a</sup>	2,126.5	95.6	1,795.4	96.2	45.8
2004 <sup>a</sup>	2,117.3	95.5	1,783.1	95.6	45.7

<sup>a</sup> See: Table 3.7.

Source: 1980–91: KSH MEM, 1992– KSH MEF.

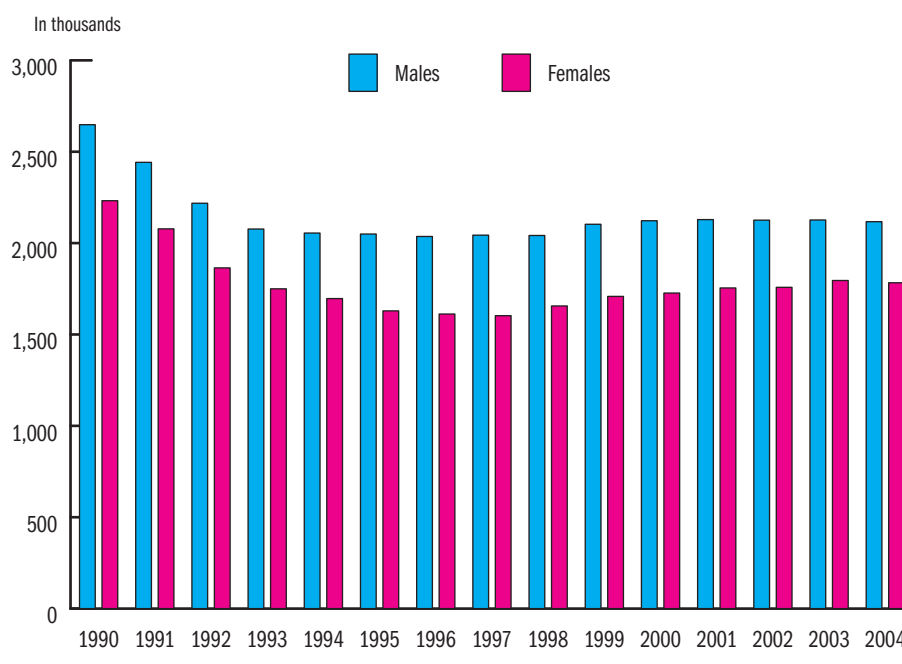


Figure 4.2: Employed by gender

**Table 4.3: Composition of the employed by age groups – males, per cent**

Year	15-19	20-24	25-49	50-54	55-59	60+	Total
	years old						
1980	5.1	12.6	55.4	10.2	8.0	8.7	100.0
1990	5.0	10.8	64.1	8.6	6.8	4.7	100.0
1991	4.5	10.9	65.3	8.9	6.7	3.7	100.0
1992	3.3	10.9	67.2	9.1	6.5	2.9	100.0
1993	2.9	11.1	68.3	9.2	6.1	2.3	100.0
1994	2.9	11.3	68.7	9.5	5.5	2.0	100.0
1995	2.8	11.3	68.8	9.7	5.6	1.8	100.0
1996	2.5	11.6	69.3	9.6	5.6	1.4	100.0
1997	2.3	12.3	68.9	9.9	5.4	1.2	100.0
1998	2.3	13.4	67.6	10.3	5.1	1.3	100.0
1999	1.9	13.2	67.1	10.5	5.6	1.6	100.0
2000	1.5	12.4	67.3	10.6	6.4	1.8	100.0
2001	1.1	10.9	68.3	11.0	6.9	1.8	100.0
2001 <sup>a</sup>	1.2	10.4	68.6	11.1	6.7	2.0	100.0
2002 <sup>a</sup>	0.9	9.4	69.4	11.3	6.9	2.1	100.0
2003 <sup>a</sup>	0.7	8.6	69.1	11.8	7.3	2.5	100.0
2004 <sup>a</sup>	0.7	7.4	69.5	12.0	7.3	3.0	100.0

<sup>a</sup> See: Table 3.7.

Source: 1980–91: Census based estimates. 1992– : KSH MEF.

**Table 4.4: Composition of the employed by age groups – females, per cent**

Year	15-19	20-24	25-49	50-54	55+	Total
	years old					
1980	5.3	9.7	61.8	10.7	12.5	100.0
1990	5.2	8.6	66.2	10.0	10.0	100.0
1993	3.3	9.9	71.4	10.3	5.1	100.0
1994	3.2	10.2	71.8	10.4	4.5	100.0
1995	2.7	10.2	72.2	10.6	4.3	100.0
1996	2.4	9.9	72.2	11.0	4.5	100.0
1997	2.0	10.8	72.2	10.5	4.5	100.0
1998	2.3	12.2	71.2	10.5	3.8	100.0
1999	1.7	12.1	70.2	11.6	4.4	100.0
2000	1.4	11.1	69.6	12.7	5.2	100.0
2001	1.1	10.1	70.0	13.0	5.8	100.0
2001 <sup>a</sup>	1.1	9.6	70.5	13.1	5.7	100.0
2002 <sup>a</sup>	0.8	9.2	69.4	13.8	6.8	100.0
2003 <sup>a</sup>	0.5	8.2	68.8	14.0	8.5	100.0
2004 <sup>a</sup>	0.5	7.1	68.2	14.6	9.7	100.0

<sup>a</sup> See: Table 3.7.

Source: 1980–91: Census based estimates. 1992– : KSH MEF.

**Table 4.5: Composition of the employed by level of education – males, per cent**

Year	8 grades of primary school or less	Vocational school	Secondary school	College, University	Total
1980	40.8	32.3	18.2	8.7	100.0
1990	37.6	30.5	20.1	11.8	100.0
1993	24.0	36.2	25.1	14.7	100.0
1994	22.5	38.1	25.2	14.2	100.0
1995	21.3	38.5	25.5	14.7	100.0
1996	20.2	39.3	25.3	15.2	100.0
1997	20.1	39.4	26.5	14.1	100.0
1998	20.3	39.4	25.7	14.7	100.0
1999	16.8	41.5	26.8	14.9	100.0
2000	16.1	41.6	26.7	15.6	100.0
2001	15.7	42.7	26.0	15.6	100.0
2001 <sup>a</sup>	15.6	42.8	26.0	15.6	100.0
2002 <sup>a</sup>	14.6	43.2	26.4	15.8	100.0
2003 <sup>a</sup>	14.0	41.3	27.7	17.0	100.0
2004 <sup>a</sup>	13.0	40.4	28.0	18.6	100.0

<sup>a</sup> See note of Table 3.7.

Source: Census based estimates. 1992– : KSH MEF. Since 1999 slight changes carried out in the categorisation system.

**Table 4.6: Composition of the employed by level of education – females, per cent**

Year	8 grades of primary school or less	Vocational school	Secondary school	College, University	Total
1980	53.1	12.3	27.5	7.2	100.0
1990	43.4	13.4	31.4	11.8	100.0
1995	26.5	20.1	37.1	16.3	100.0
1996	25.6	19.6	37.3	17.6	100.0
1997	25.1	20.6	37.9	16.4	100.0
1998	23.6	20.2	38.2	18.0	100.0
1999	20.6	20.3	40.6	18.5	100.0
2000	19.1	20.9	40.8	19.2	100.0
2001	19.0	21.2	40.4	19.4	100.0
2001 <sup>a</sup>	19.1	21.3	40.3	19.3	100.0
2002 <sup>a</sup>	18.5	21.5	40.2	19.8	100.0
2003 <sup>a</sup>	16.4	21.5	40.9	21.2	100.0
2004 <sup>a</sup>	15.9	20.5	40.2	23.4	100.0

\* See note of Table 3.7.

Source: Census based estimates. 1992– : KSH MEF.

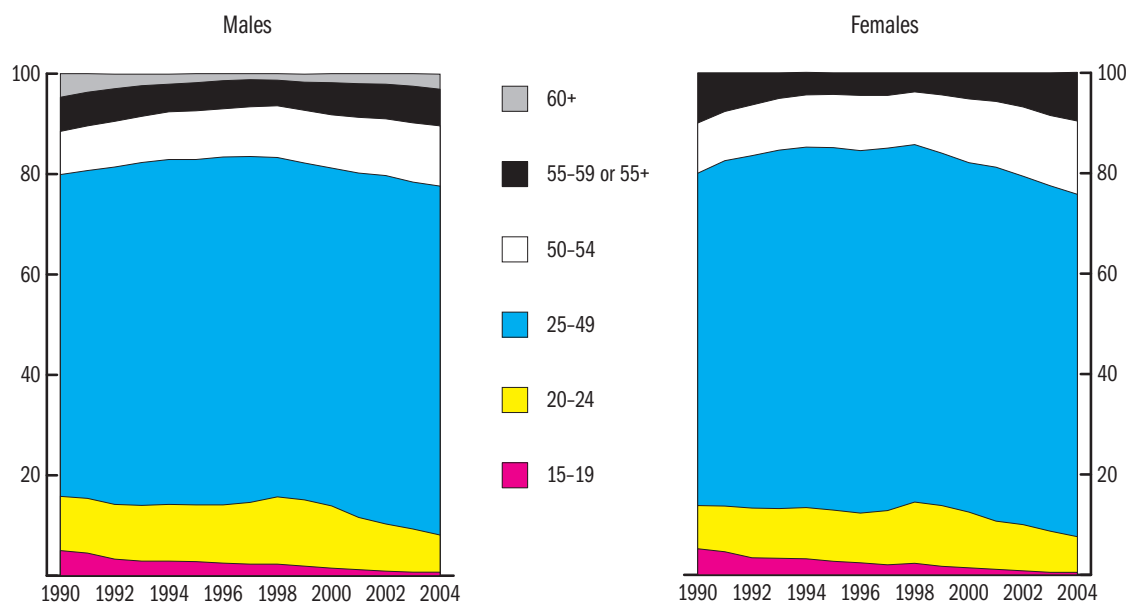


Figure 4.3: Employed by age, per cent

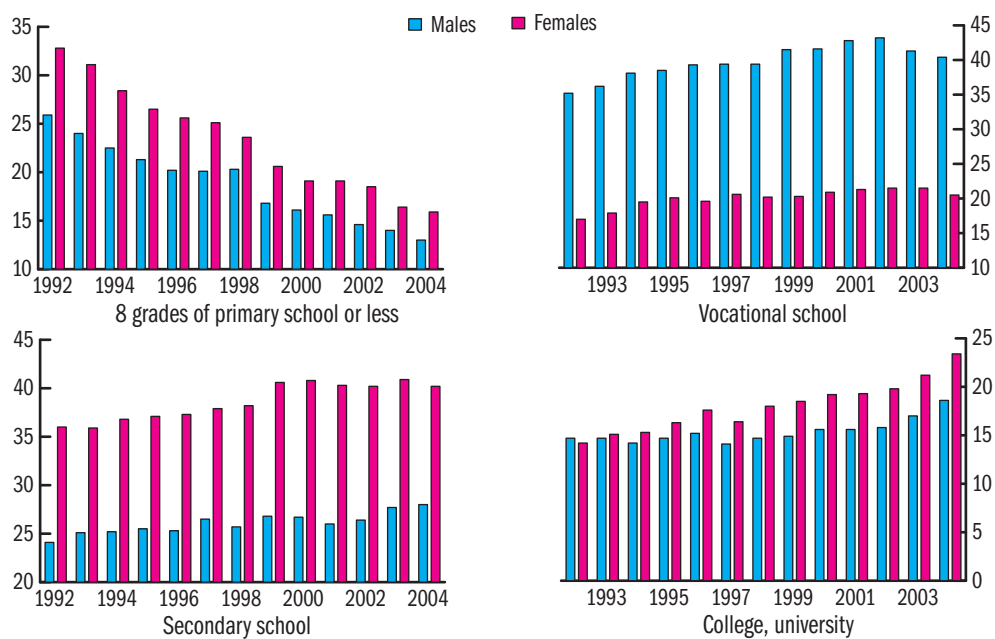


Figure 4.4: Employed by highest educational attainment and gender, per cent

**Table 4.7: Employed by type of employment**

Year	Employees	Member of cooperatives	Member of other partnerships	Self-employed and assisting family members	Total
1994	3,045.2	103.3	174.7	369.3	3,692.5
1995	2,978.9	84.2	167.9	391.8	3,622.8
1996	2,961.2	79.0	151.8	413.1	3,605.1
1997	2,989.7	68.9	137.4	414.3	3,610.3
1998	3,088.5	55.8	132.5	397.9	3,674.7
1999	3,201.3	42.5	111.8	435.9	3,791.5
2000	3,255.5	37.1	129.4	407.1	3,829.1
2001	3,296.3	30.7	119.1	398.4	3,844.5
2001 <sup>a</sup>	3,313.6	31.4	118.9	404.4	3,868.3
2002 <sup>a</sup>	3,337.2	22.5	109.9	401.0	3,870.6
2003 <sup>a</sup>	3,399.2	8.6	114.7	399.4	3,921.9
2004 <sup>a</sup>	3,347.8	8.1	136.6	407.8	3,900.3

<sup>a</sup> See note of Table 3.7.

Note: Conscripts are excluded.

Source: 1980–91: KSH MEM, 1992– KSH MEF.

**Table 4.8: Composition by type of employment – per cent**

Year	Employees	Member of cooperatives	Member of other partnerships	Self-employed and assisting family members	Total
1994	82.5	2.8	4.7	10.0	100.0
1995	82.2	2.3	4.6	10.8	100.0
1996	82.1	2.2	4.2	11.5	100.0
1997	82.8	1.9	3.8	11.5	100.0
1998	84.0	1.5	3.6	10.8	100.0
1999	84.4	1.1	2.9	11.5	100.0
2000	85.0	1.0	3.4	10.6	100.0
2001	85.7	0.8	3.1	10.4	100.0
2001 <sup>a</sup>	85.7	0.8	3.1	10.5	100.0
2002 <sup>a</sup>	86.2	0.6	2.8	10.4	100.0
2003 <sup>a</sup>	86.7	0.2	2.8	10.3	100.0
2004 <sup>a</sup>	85.8	0.2	3.5	10.5	100.0

<sup>a</sup> See note of Table 3.7.

Note: Conscripts are excluded.

Source: 1980–91: KSH MEM, 1992– KSH MEF.

Table 4.9: Employees by industry, per cent

Industry	1980	1990	2000	2001 <sup>a</sup>	2002 <sup>a</sup>	2003 <sup>a</sup>	2004 <sup>a</sup>
Agriculture	18.0	15.8	5.2	4.9	4.8	4.4	4.1
Mining and quarrying	2.2	1.8	0.7	0.4	0.4	0.4	0.4
Manufacturing	29.2	29.5	25.9	26.5	26.4	25.2	24.4
Electricity, gas, steam, water supply	2.9	3.0	2.3	2.3	2.1	1.9	1.8
Construction	7.0	5.9	6.4	6.5	6.4	7.0	7.3
Wholesale and retail trade	8.7	8.9	13	13.1	13.1	13.2	13.1
Hotels and restaurants	2.3	2.4	3.2	3.5	3.4	3.4	3.6
Transport, storage, communication	7.4	6.7	8.3	8.3	8.1	7.8	7.7
Financial intermediation	1.1	1.4	2.2	2.1	2.0	1.9	2.1
Real estate, renting, business activities	3.2	2.9	5.0	5.4	5.5	6.1	6.5
Public administration and defence; compulsory social security	4.0	5.6	8.1	7.9	8.1	8.4	8.5
Education	6.0	7.1	9.1	8.9	9.1	9.2	9.4
Health and social work	5.3	5.5	6.8	6.6	6.7	7.3	7.4
Other	2.7	3.4	3.9	3.7	3.7	3.8	3.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* Includes members of cooperatives and partnerships.

<sup>a</sup> See note of Table 3.7.

Source: 1980–1990: Census based estimates.; 1992–: KSH MEF.

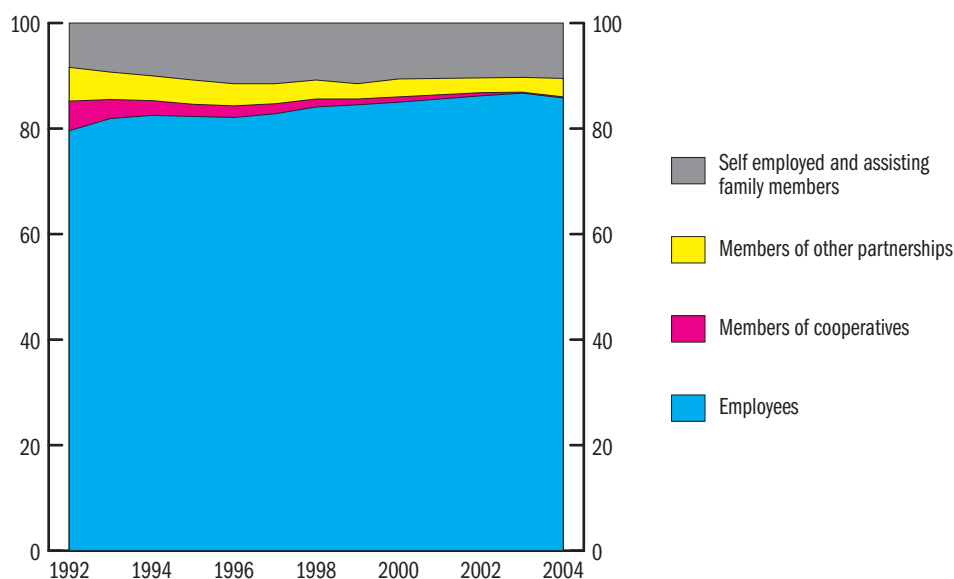


Figure 4.5: Ratio of employees, members of cooperatives, members of other partnerships, self-employed and assisting family members, per cent



**Table 4.10: Employees of the corporate sector by firm size, per cent**

	less than 20	20-49	50-249	250-999	more than 1000
Year	number of employees				
1998	8.2	5.8	25.1	26.4	34.4
1999	8.9	7.7	25.6	25.5	32.3
2000	20.2	7.0	23.5	22.5	26.8
2001	18.5	7.5	24.3	23.0	26.7
2002	21.6	14.0	21.5	20.1	22.9
2003	23.0	15.3	20.5	19.3	21.8
2004	23.6	14.8	21.3	18.3	22.0

Note: –1999: firms employing 10 or more workers; 2000–2001: firms employing 5 or more workers.

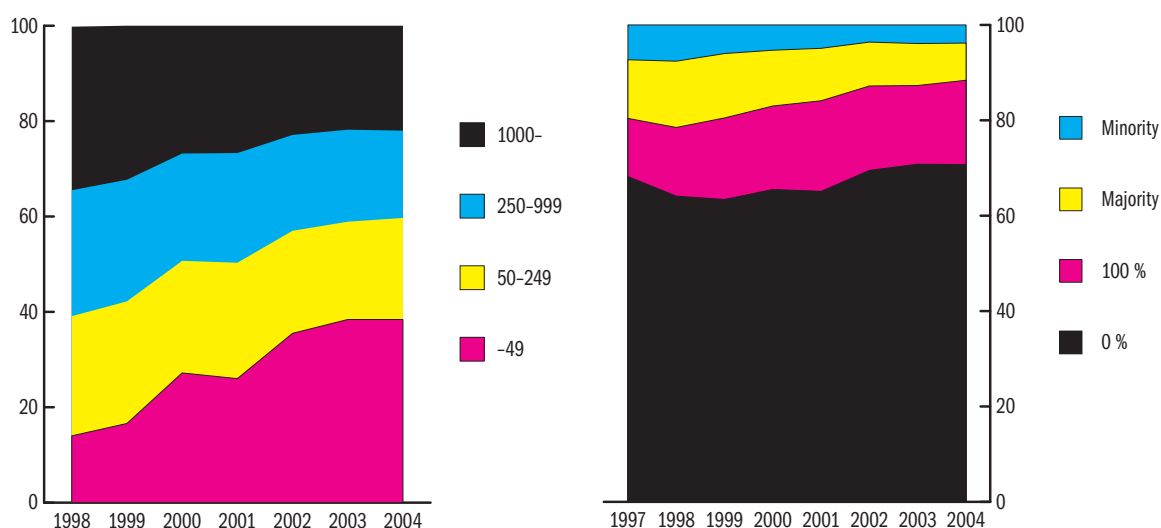
Source: FH BT.

**Table 4.11: Employees of the corporate sector by the share of foreign ownership, per cent**

Foreign Ownership	1997	1998	1999	2000	2001	2002	2003	2004
100%	12.2	14.4	17.1	17.5	19.0	17.7	16.5	17.7
Majority	12.3	13.9	13.5	11.7	11.0	9.2	8.8	7.8
Minority	7.3	7.6	6.0	5.3	4.9	3.6	3.9	3.8
0%	68.2	64.1	63.4	65.5	65.1	69.5	70.8	70.7

Note: –1999: firms employing 10 or more workers; 2000–2001: firms employing 5 or more workers.

Source: FH BT.

**Figure 4.6: Employees of the corporate sector by firm size and by the share of foreign ownership**

**Table 4.12: Employment rate of population aged 15-74 , by age group, males**

Year	15-19	20-24	25-49	50-54	55-59	60+	Total
1992	14.6	64.7	82.8	71.8	48.7	13.0	58.9
1998	11.4	59.9	78.8	66.0	38.3	5.7	54.4
1999	10.6	60.3	80.5	69.0	44.0	6.1	56.2
2000	8.4	58.9	80.9	69.6	49.6	6.7	56.8
2001 <sup>a</sup>	7.9	56.7	81.6	68.2	51.3	7.0	57.1
2002 <sup>a</sup>	5.6	53.1	81.9	68.6	52.8	7.6	57.1
2003 <sup>a</sup>	4.8	51.8	82.2	69.7	55.2	8.9	57.6
2004 <sup>a</sup>	4.5	46.5	82.7	69.7	54.0	10.8	57.5

<sup>a</sup> See: Table 3.7.

Source: KSH MEF.

**Table 4.13: Employment rate of population aged 15-74 by age group, females**

Year	15-19	20-24	25-49	50-54	55-59	60+	Total
1992	16.0	54.0	72.2	58.4	18.2	7.5	46.6
1998	10.7	47.5	66.3	52.3	13.6	2.5	41.0
1999	8.7	48.1	67.3	59.4	16.2	2.8	42.3
2000	8.0	45.9	67.8	62.5	20.0	2.8	43.0
2001 <sup>a</sup>	6.3	44.2	68.0	62.1	23.2	2.8	43.1
2002 <sup>a</sup>	4.3	44.2	67.0	64.0	28.3	3.1	43.3
2003 <sup>a</sup>	3.1	41.9	67.8	65.8	35.1	3.9	44.3
2004 <sup>a</sup>	2.7	37.4	67.2	66.0	39.8	4.5	44.1

<sup>a</sup> See: Table 3.7.

Source: KSH MEF.

**Table 4.14: Employment rate of population aged 15-74 by level of education, males**

Year	8 grades of primary school or less	Vocational school	Secondary school	College, University	Total
1993	30.4	75.6	68.0	79.6	54.9
1998	28.2	75.1	63.4	75.7	54.4
1999	26.7	76.4	64.9	77.4	56.2
2000	26.5	77.0	64.5	77.5	56.8
2001 <sup>a</sup>	26.4	77.3	63.8	78.4	57.1
2002 <sup>a</sup>	25.4	77.1	63.6	78.2	57.1
2003 <sup>a</sup>	25.8	76.1	43.5	74.3	57.6
2004 <sup>a</sup>	24.8	75.2	42.1	75.0	57.5

<sup>a</sup> See note of Table 3.7.

Source: 1980 –1990: Census based estimates.; 1999–: KSH MEF.

**Table 4.15: Employment rate of population aged 15-74 by level of education, females**

Year	8 grades of primary school or less	Vocational school	Secondary school	College, University	Total
1993	24.9	64.9	61.8	76.7	43.5
1998	20.2	60.4	55.2	73.1	41.0
1999	19.6	60.8	56.3	73.1	42.3
2000	19.2	60.8	56.3	73.5	43.0
2001 <sup>a</sup>	19.4	60.5	56.0	74.4	43.1
2002 <sup>a</sup>	19.3	60.1	55.2	74.3	43.3
2003 <sup>a</sup>	18.8	59.0	46.1	66.9	44.3
2004 <sup>a</sup>	18.4	58.1	43.9	66.7	44.1

<sup>a</sup> See note of Table 3.7.

Source: 1980 –1990: Census based estimates.; 1999–: KSH MEF.

Table 5.1: Registered and LFS unemployment

Year	Registered unemployed		LFS unemployed	
	in thousands	rate in %	in thousands	rate in %
1990	47.7	–	...	...
1991	227.3	4.1	...	...
1992	557.0	10.3	444.2	9.8
1993	671.8	12.9	518.9	11.9
1994	568.4	11.3	451.2	10.7
1995	507.7	10.6	416.5	10.2
1996	500.6	11.0	400.1	9.9
1997	470.1	10.5	348.8	8.7
1998	423.1	9.5	313.0	7.8
1999	409.5	9.7	284.7	7.0
2000	390.5	9.3	262.5	6.4
2001	364.1	8.5	232.9	5.7
2002	344.7	8.0	238.8	5.8
2003	357.2	8.3	244.5	5.9
2004	375.9	8.7	252.9	6.1

Note: The denominator of the unemployment rate is the economically active population on 1st January of the previous year.

Source: Registered unemployed: FH REG; LFS unemployed: KSH MEF.

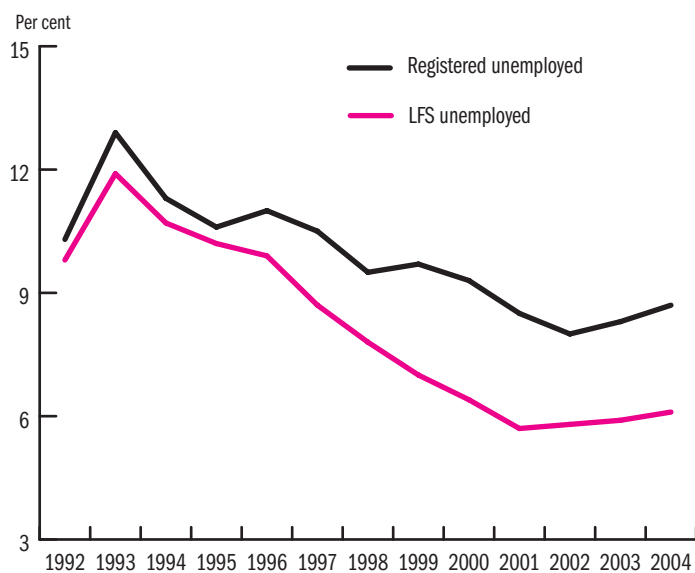


Figure 5.1: Registered and LFS, LFS unemployment rates

**Table 5.2: Unemployment rate by age and gender and % of long term unemployed**

Year	Unemployment rate			Of which: 15-24 ages	Share of long term unemployed <sup>1</sup>
	Males	Females	Together		
1992	10.7	8.7	9.8	17.5	...
1993	13.2	10.4	11.9	21.3	...
1994	11.8	9.4	10.7	19.4	43.2
1995	11.3	8.7	10.2	18.6	50.6
1996	10.7	8.8	9.9	17.9	54.4
1997	9.5	7.8	8.7	15.9	51.3
1998	8.5	7.0	7.8	13.4	48.8
1999	7.5	6.3	7.0	12.4	49.5
2000	7.0	5.6	6.4	12.1	49.1
2001	6.3	5.0	5.7	10.8	46.7
2001 <sup>a</sup>	6.3	5.0	5.7	10.9	46.7
2002 <sup>a</sup>	6.1	5.4	5.8	12.3	44.9
2003 <sup>a</sup>	6.1	5.6	5.9	13.4	43.9
2004 <sup>a</sup>	6.1	6.1	6.1	15.5	45.0

<sup>1</sup> Long term unemployed = 12 or more months without job.

<sup>a</sup> See: Table 3.7.

Source: KSH MEF.

**Table 5.3: Composition of the unemployed by level of education, males**

Year	8 grades of primary school or less	Vocational school	Secondary school	College, University	Total
1993	39.0	40.8	17.3	2.8	100.0
1998	37.4	42.0	17.2	3.4	100.0
1999	34.5	45.3	17.4	2.8	100.0
2000	32.9	45.8	17.9	3.4	100.0
2001 <sup>a</sup>	36.5	43.2	17.5	2.8	100.0
2002 <sup>a</sup>	36.7	43.3	16.7	3.3	100.0
2003 <sup>a</sup>	34.0	44.7	17.2	4.1	100.0
2004 <sup>a</sup>	33.9	42.6	18.6	4.9	100.0

<sup>a</sup> See note of Table 3.7.

Source: 1993–: KSH LFS. Since 1999 slight changes carried out in the categorisation system.

**Table 5.4: Unemployment rate of population aged 15-74 by level of education, males**

Year	8 grades of primary school or less	Vocational school	Secondary school	College, University	Total
1993	20.3	15.0	9.7	2.9	13.5
1998	14.6	9.1	5.9	2.2	8.5
1999	14.3	8.2	5.0	1.5	7.5
2000	13.4	7.7	4.8	1.6	7.0
2001 <sup>a</sup>	13.6	6.4	4.3	1.2	6.3
2002 <sup>a</sup>	14.1	6.2	4.0	1.4	6.1
2003 <sup>a</sup>	13.6	6.6	3.9	1.6	6.1
2004 <sup>a</sup>	14.3	6.4	4.1	1.7	6.1

<sup>a</sup> See note of Table 3.7.

Source: 1993–: KSH LFS. Since 1999 slight changes carried out in the categorisation system.

**Table 5.5: Composition of the unemployed by level of education, females**

Year	8 grades of primary school or less	Vocational school	Secondary school	College, University	Total
1993	45.8	22.6	27.4	4.2	100.0
1998	41.6	22.7	31.4	4.3	100.0
1999	36.2	26.2	33.8	3.8	100.0
2000	31.8	28.2	35.0	5.0	100.0
2001	33.3	28.2	32.5	6.1	100.0
2001 <sup>a</sup>	33.7	28.0	32.2	6.1	100.0
2002 <sup>a</sup>	33.2	26.0	32.2	8.5	100.0
2003 <sup>a</sup>	32.7	28.3	32.0	7.0	100.0
2004 <sup>a</sup>	27.8	27.4	34.2	10.6	100.0

<sup>a</sup> See note of Table 3.7.

Source: 1993–: KSH LFS. Since 1999 slight changes carried out in the categorisation system.

**Table 5.6: Unemployment rate of population aged 15-74 by level of education, females**

Year	8 grades of primary school or less	Vocational school	Secondary school	College, University	Total
1993	14.6	12.8	8.1	3.2	10.4
1998	11.6	7.8	5.8	1.8	7.0
1999	10.5	8.0	5.2	1.3	6.3
2000	9.1	7.4	4.9	1.5	5.6
2001 <sup>a</sup>	8.4	6.4	4.0	1.6	5.0
2002 <sup>a</sup>	9.3	6.5	4.4	2.4	5.4
2003 <sup>a</sup>	10.5	7.2	4.4	1.9	5.6
2004 <sup>a</sup>	10.3	8.0	5.3	2.9	6.1

<sup>a</sup> See note of Table 3.7.

Source: 1993–: KSH LFS. Since 1999 slight changes carried out in the categorisation system.

Table 5.7: The distribution of unemployed by duration of job search, in thousands\*

Year	Length of job search								Total
	1-4 [<1]	5-14 [1-3]	15-26 [4-6]	27-51 [7-11]	52 [12]	53-78 [13-18]	79-104 [19-24]	105- [>24]	
	weeks [month]								
1992	43.9	90.9	96.4	110.7	10.6	41.7	38.4	-	432.6
1993	36.2	74.8	87.9	120.5	14.7	75.1	83.7	-	492.9
1994	30.5	56.5	65.0	91.9	8.4	63.0	73.8	40.4	429.5
1995	23.0	51.0	56.5	69.4	20.2	57.2	34.3	93.2	404.8
1996	19.9	46.4	49.3	61.5	18.2	56.1	37.1	100.2	388.7
1997	16.1	43.7	45.9	54.4	15.7	44.5	31.1	77.3	328.7
1998	12.9	44.2	44.5	45.7	16.0	39.0	27.6	63.5	293.4
1999	15.4	44.1	38.8	46.0	13.2	38.1	26.8	62.3	284.7
2000	16.7	38.5	35.1	42.8	12.7	36.9	23.6	55.4	261.3
2001	14.7	36.9	33.1	38.3	11.3	31.4	20.9	44.1	230.7
2001 <sup>a</sup>	14.9	37.0	33.2	38.6	11.5	31.6	20.9	44.2	231.9
2002 <sup>a</sup>	15.5	39.4	34.8	40.7	11.6	32.7	19.8	42.5	237.0
2003 <sup>a</sup>	15.9	42.1	38.9	42.0	14.5	27.6	17.6	43.0	241.6
2004 <sup>a</sup>	13.0	42.0	39.9	41.8	13.5	33.4	19.6	47.2	250.4

\* Without those unemployed who will get a new job within 30 days; since 2003: within 90 days.

<sup>a</sup> See note of Table 3.7.

Source: KSH MEF.

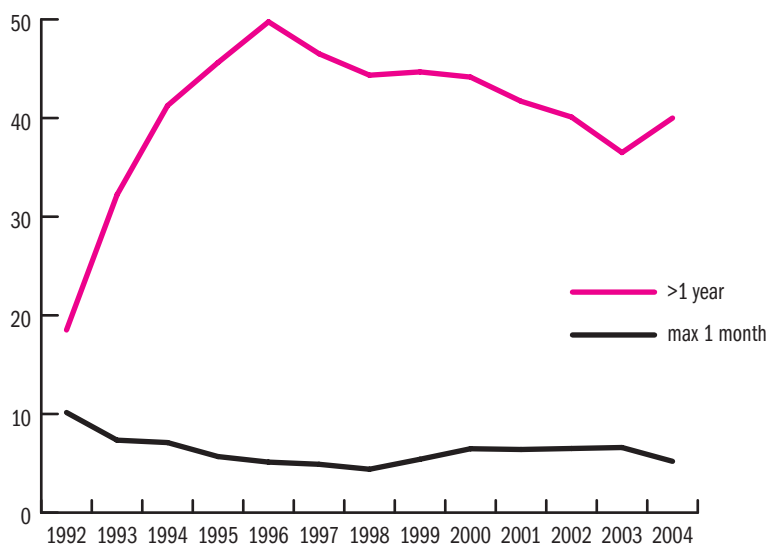
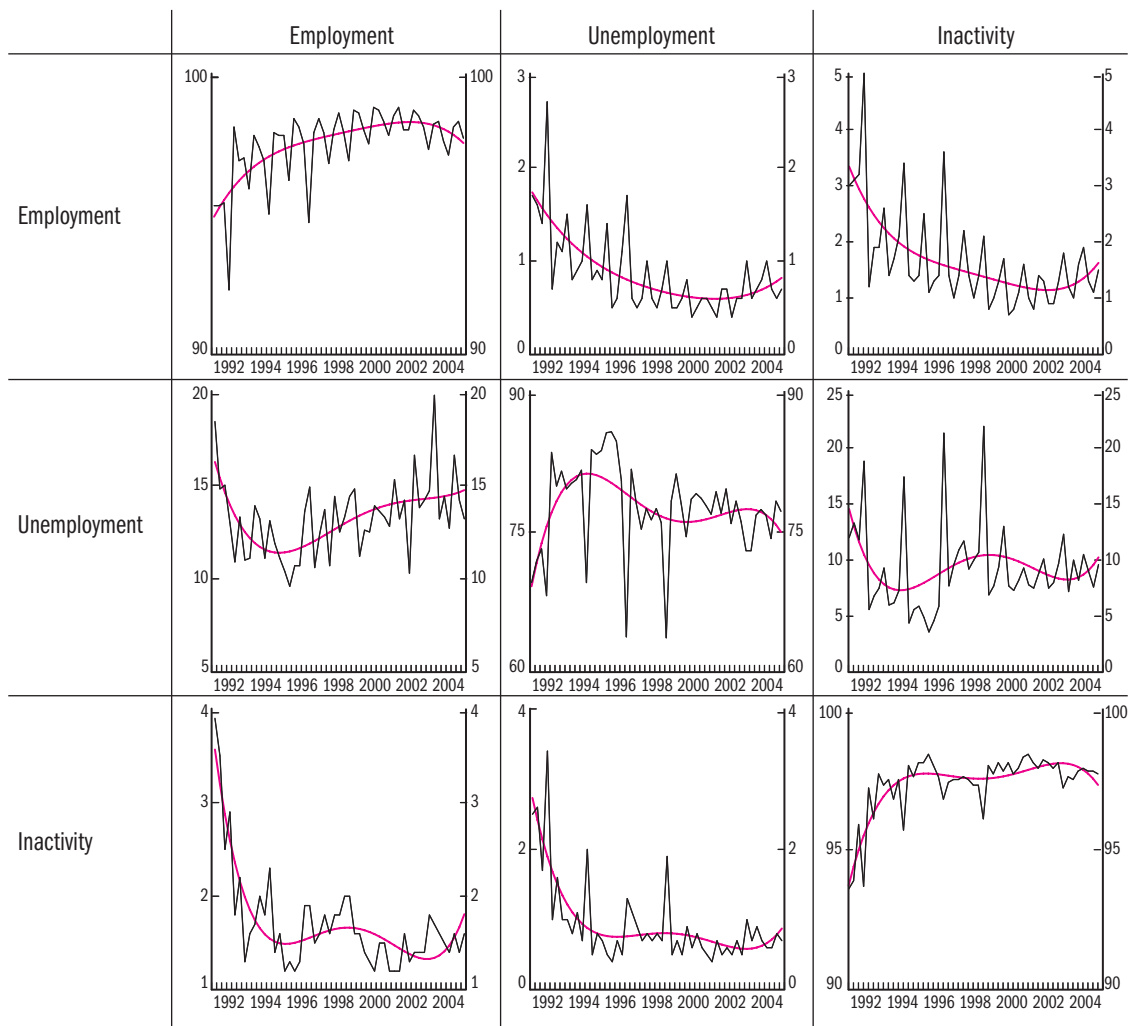


Figure 5.2: The distribution of unemployed by duration of job search, per cent



Figure 5.3: Quarterly flows between labour market states, population between 15–74 years



The data refer to 15–74 aged cohorts observed in the LFS in two consecutive quarters. Red curves: smoothed with fourth degree polynomial.

Source: KSH MEF.

**Table 5.8: Registered unemployed by economic activity as observed in the LFS**

Year	Employed	Unemployed	Inactive	Total
1992	5.1	71.6	23.3	100.0
1993	10.0	63.6	26.4	100.0
1994	14.4	54.5	31.1	100.0
1995	11.8	53.7	34.5	100.0
1996	13.7	51.8	34.5	100.0
1997	18.7	44.1	37.2	100.0
1998	24.8	35.1	40.1	100.0
1999	6.7	55.8	37.5	100.0
2000	4.7	54.3	41.0	100.0
2001	6.5	45.2	48.3	100.0
2002 <sup>a</sup>	4.4	47.4	48.2	100.0
2003 <sup>a</sup>	9.4	44.1	46.5	100.0
2004 <sup>a</sup>	3.0	53.5	43.5	100.0

<sup>a</sup> See note of Table 3.7.

Note: The data refer to the population observed as registered unemployed in the LFS.

Since 1999 serious methodology changes: people whose last contact with employment office was more than two months before the interview were excluded.

Source: KSH MEF.

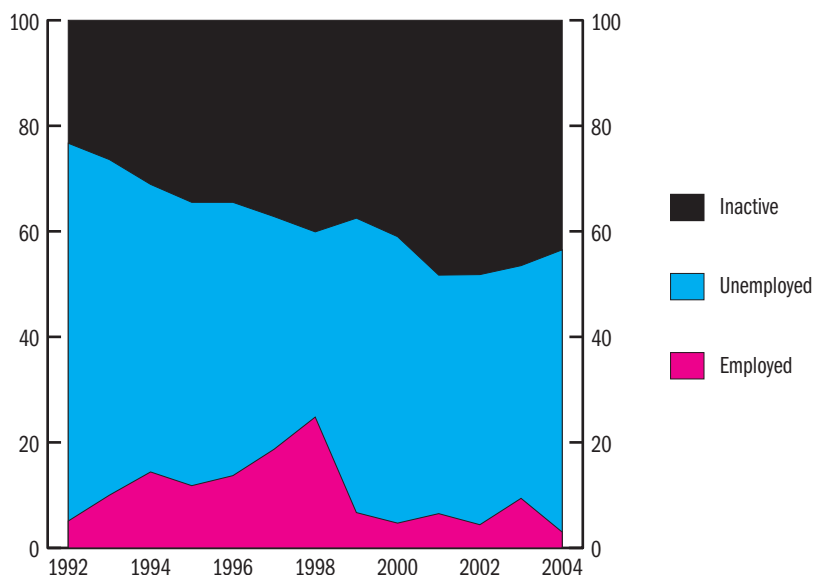
**Figure 5.4: Registered unemployed by economic activity**

Table 5.9: Selected time series of registered unemployment, yearly average, in thousands, per cent

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Registered unemployment	671.7	568.4	507.7	500.6	470.1	423.1	409.5	390.5	364.1	344.7	357.2	375.9
Of which:												
-School-leavers	59.7	62.1	54.5	46.2	42.4	32.5	29.9	26.0	26.8	28.5	31.3	33.8
-Non school-leavers	612.0	506.2	453.2	454.4	427.7	390.6	379.6	364.4	337.4	316.2	325.9	342.2
-Male	395.3	333.0	293.8	284.1	267.1	233.4	221.4	209.7	196.4	184.6	188.0	193.3
-Female	276.4	235.3	213.8	216.5	203.0	189.7	188.1	180.8	167.7	160.1	169.2	182.6
-25 years old and younger	174.8	153.3	134.2	124.0	105.8	89.9	85.4	79.1	75.6	71.1	71.6	71.4
-Manual workers	556.0	467.6	414.3	407.4	386.3	349.0	336.8	321.2	302.0	286.3	296.2	308.5
-Non manual workers	115.8	100.7	93.4	93.2	83.8	74.1	72.7	69.3	62.1	58.4	61.0	67.4
-Unemployment benefit recipients	404.8	228.9	182.8	171.7	141.7	130.7	140.7	131.7	119.2	114.9	120.0 <sup>a</sup>	124.0
-Unemployment assistance recipients	89.3	190.3	210.0	211.3	201.3	182.2	148.6	143.5	131.2	113.4	116.2	120.4
<b>Shares within registered unemployed</b>												
Unemployment rate	12.9	11.3	10.6	11.0	10.5	9.5	9.7	9.3	8.5	8.0	8.3	8.7
School-leavers	8.9	10.9	10.7	9.2	9.0	7.7	7.3	6.7	7.3	8.3	8.8	9.0
Male	58.8	58.6	57.9	56.7	56.8	55.2	54.1	53.7	53.9	53.5	52.6	51.4
25 years old and younger	26.0	27.0	26.4	24.8	22.5	21.3	20.9	20.3	20.8	20.6	20.0	19.0
Manual workers	82.8	82.3	81.6	81.4	82.2	82.5	82.3	82.2	82.9	83.1	82.9	82.1
Inflow to the Register	48.6	42.3	45.7	52.8	56.1	55.4	57.2	54.1	57.0	56.0	54.8	57.8
Of which: school-leavers	7.6	7.8	8.0	7.5	9.2	9.8	9.3	8.0	7.8	7.8	7.7	7.6
Outflow from the Register	51.2	51.7	47.6	54.3	57.3	60.4	57.2	56.8	59.4	55.8	53.5	54.4
Of which: school-leavers	6.6	7.9	8.5	8.9	9.0	11.0	9.4	8.2	7.7	7.5	7.6	7.1

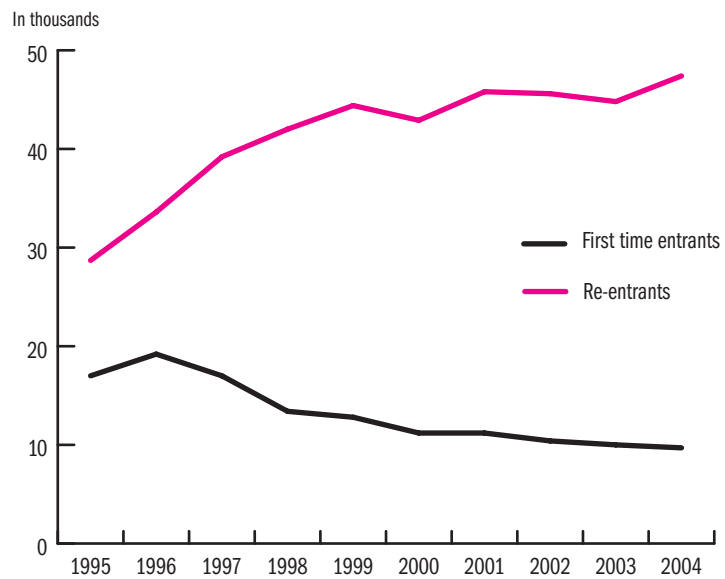
<sup>a</sup> Recipients of job search assistance benefit included.<sup>b</sup> From 2001 together with regular social allowance recipients

Source: FH REG.

**Table 5.10: First-time entrants and re-entrants to the unemployment register, in thousands**

Year	First-Time Entrants	Re-Entrants	Total Number of Entrants
1995	17.0	28.7	45.7
1996	19.2	33.6	52.8
1997	17.0	39.2	56.1
1998	13.4	42.0	55.4
1999	12.8	44.4	57.2
2000	11.2	42.9	54.1
2001	11.2	45.8	57.0
2002	10.4	45.6	56.0
2003	10.0	44.8	54.8
2004	10.5	47.4	57.8

Source: FH REG.



**Figure 5.5: Entrants to the unemployment register, in thousands**

Table 5.11: Benefit receipt and participation in active labour market programs

Year	Unemployment benefit	Unemployment assistance	UA for school-leavers	Do not receive provision	Public work	Retraining	Wage subsidy	Other programmes	Total
<b>1990</b>									
In thousands	42.5	-	-	18.6	...	...	...	...	61.0
Per cent	69.6			30.4					100.0
<b>1994</b>									
In thousands	160.3	202.4	24.5	142.4	28.7	31.2	23.9	61.7	675.1
Per cent	23.7	30.0	3.6	21.1	4.3	4.6	3.5	9.1	100.0
<b>1995</b>									
In thousands	150.8	192.9	26.3	109.1	21.7	20.4	10.9	64.7	596.8
Per cent	25.3	32.3	4.4	18.3	3.6	3.4	1.8	10.8	100.0
<b>1996</b>									
In thousands	145.4	218.5	2.6	127.8	38.5	20.6	16.4	74.5	644.3
Per cent	22.6	33.9	0.4	19.8	6.0	3.2	2.5	11.6	100.0
<b>1997</b>									
In thousands	134.1	193.5	0.1	121.8	38.9	25.1	29.7	95.7	638.9
Per cent	21.0	30.3	0.0	19.1	6.1	3.9	4.6	15.0	100.0
<b>1998</b>									
In thousands	123.9	158.6	0.1	109.4	37.4	24.5	30.9	86.7	571.5
Per cent	21.7	27.7	0.0	19.1	6.5	4.3	5.4	15.2	100.0
<b>1999</b>									
In thousands	135.5	146.7	0.0	107.1	35.7	28.0	31.1	60.6	544.7
Per cent	24.9	26.9	0.0	19.7	6.6	5.1	5.7	11.1	100.0
<b>2000</b>									
In thousands	117.0	139.7 <sup>a</sup>	0.0	106.5	26.7	25.3	27.5	73.5	516.2
Per cent	22.7	27.1	0.0	20.6	5.2	4.9	5.3	14.2	100.0
<b>2001</b>									
In thousands	111.8	113.2	0.0	105.2	29.0	30.0	25.8	37.2	452.2
Per cent	247.0	25.0	0.0	23.3	6.4	6.6	5.7	8.2	100.0
<b>2002</b>									
In thousands	104.8	107.6	-	115.3	21.6	23.5	21.2	32.8	426.8
Per cent	24.6	25.2	-	27.0	5.1	5.5	5.0	7.7	100.0
<b>2003</b>									
In thousands	105.1 <sup>b</sup>	109.5	-	125.0	21.2	22.5	20.1	36.6	440.0
Per cent	23.9	24.9	-	28.4	4.8	5.1	4.6	8.3	100.0
<b>2004</b>									
In thousands	117.4	118.4	0.0	132.3	16.8	12.6	16.8	28.5	442.8
Per cent	26.5	26.7		29.9	3.8	2.8	3.8	6.4	100.0

<sup>a</sup> Together with the number of regular social allowance recipients.

<sup>b</sup> Recipients of job search assistance benefit included.

Note: October. The percentage ratios refer to the combined number of the registered unemployed and program participants.

Source: FH.

**Table 5.12: Distribution of registered unemployed by educational attainment**

Educational attainment	1995	1998	2001	2004	2005
8 classes of primary school or less	43.6	40.9	42.3	42.7	41.8
Vocational school	34.5	36.0	34.2	32.2	32.6
Vocational secondary school	11.7	12.8	13.0	13.4	13.6
Grammar school	7.9	7.8	7.7	7.8	8.0
College diplom, BA	1.5	1.8	2.1	2.8	2.9
University diplom, MA	0.7	0.6	0.7	1.0	1.0
Total	100.0	100.0	100.0	100.0	100.0
N	482.7	406.4	359.6	350.7	388.1

Note: On the closing date of June in every year.

Source: FH.

**Table 5.13: Distribution of unemployment benefit recipients by educational attainment**

Educational attainment	1995	1998	2001	2004 <sup>a</sup>
8 classes of primary school or less	36.9	32.0	29.7	28.9
Vocational school	36.6	39.5	40.7	39.2
Vocational secondary school	14.9	16.0	16.7	17.7
Grammar school	8.3	9.0	9.0	9.3
College diplom, BA	2.2	2.6	2.9	3.6
University diplom, MA	1.0	0.9	1.0	1.3
Total	100.0	100.0	100.0	100.0
N	164.1	121.3	110.3	100.3

<sup>a</sup> Recipients of unemployment allowance before retirement are excluded.

Note: On the closing date of June in every year.

Source: FH.

**Table 5.14: Distribution of unemployment assistance<sup>1</sup> by educational attainment**

Educational attainment	1995	1998	2001	2004	2005
8 classes of primary school or less	56.8	50.0	55.5	61.1	60.4
Vocational school	30.6	34.3	30.0	27.6	27.8
Vocational secondary school	6.9	8.7	7.4	6.1	6.4
Grammar school	4.5	5.7	5.1	4.2	4.3
College diplom, BA	0.8	1.0	0.9	0.8	0.9
University diplom, MA	0.3	0.3	0.3	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0
N	220.7	186.6	136.9	114.6	127.8

<sup>1</sup> Recipients of regular social assistance are included since 2001.

Note: On the closing date of June in every year.

Source: FH.

**Table 5.15: The ratio of those who are employed among the former participants of ALMPs\***

Active labour market programmes	1996	1997	1998	1999	2000	2001	2002	2003	2004
Suggested training programmes	44.5	46.3	46.8	46.8	48.4	45.4	43.3	43.0	45.5
Accepted training programmes	50.2	51.1	51.5	50.0	52.0	49.3	45.8	46.0	45.6
Retraining of those who are employed	92.8	90.4	94.7	94.8	94.9	94.2	92.7	93.3	92.1
Support for self-employment	90.2	88.1	91.7	90.5	89.4	89.2	90.7	89.6	90.7
Wage subsidy programmes	70.1	66.3	59.1	59.7	62.3	59.7	62.9	62.0	64.6
Work experience programmes	-	65.7	59.1	55.8	57.9	64.5	66.9	66.1	66.5
Further employment programme	-	72.1	75.1	68.5	73.8	71.6	78.4	78.2	71.5

\* Three months after the end of programmes.

Source: FH.

**Table 5.16: Employment ratio of former participants of ALMPs\*  
by sex, age and education for the programmes finished in 2004**

	Non-employed participants			Supported self-employment <sup>1</sup>	Wage subsidy programme	School leavers	
	suggested training	accepted training	together			work experience programme	further employment programme
<b>By gender</b>							
Male	46.9	51.0	48.5	92.4	60.8	65.8	72.2
Female	44.6	42.7	43.8	88.2	68.0	67.0	70.4
<b>By age groups</b>							
-20	33.5	39.0	35.4	75.0	34.4	58.2	68.1
20-24	49.4	49.1	49.3	84.2	60.0	67.5	83.9
25-29	48.5	45.4	47.2	93.4	65.2	74.9	
-29 together	46.4	46.1	46.3	90.4	62.3	66.5	71.5
30-34	44.3	47.1	45.6	88.9	68.4		
35-39	45.3	47.5	46.1	95.0	67.1		
40-44	46.9	46.0	46.5	89.9	64.9		
45-49	44.5	39.7	42.7	89.0	65.9		
50-54	40.4	42.7	41.3	90.3	63.4		
55+	35.2	28.1	32.5	92.6	50.4		
<b>By educational level</b>							
Less than primary school	32.6	37.5	32.8	100.0	37.9	14.3	
Primary school	42.7	40.8	42.0	86.6	56.2	46.8	100.0
Vocational school for skilled workers	49.0	47.8	48.5	92.3	65.0	62.7	70.4
Vocational school	46.6	41.8	44.4	66.7	68.9	55.8	68.4
Special vocational school	16.7	14.3	15.8		50.0	33.3	
Vocational secondary school	45.0	46.6	45.7	91.0	69.5	65.3	85.7
Technicians secondary school	44.6	47.1	45.7	91.7	67.9	69.9	100.0
Grammar school	41.0	43.1	41.8	89.8	69.8	62.1	100.0
College diploma	54.1	49.1	52.5	86.6	68.1	75.8	
University diploma	55.5	55.7	55.6	93.3	68.8	76.6	
Total	45.5	45.6	45.5	90.7	64.6	66.5	71.5

\* 3 months after the end of each programme.

<sup>1</sup> Survival rate.

Source: FH.



**Table 5.17: The distribution of the total number of labour market training participants**

Goups of labour market training participants	1996	1997	1998	1999	2000	2001	2002	2003	2004
Participants in suggested training	49.3	59.2	61.0	61.4	59.2	58.4	56.5	54.6	55.1
Participants in accepted training	43.3	34.9	33.8	33.4	35.1	35.7	38.5	34.5	32.4
Non-employed participants together	92.7	94.1	94.8	94.8	94.3	94.2	95.0	89.1	87.5
Of which: school-leavers	23.4	28.5	30.6	29.8	25.1	22.5	23.5	22.1	20.3
Employees	7.3	5.9	5.2	5.2	5.7	5.8	5.0	10.9	12.5
Participants of labour market training total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: FH.

**Table 5.18: The distribution of non-employed labour market training participants by the type of training**

Types of training	1996	1997	1998	1999	2000	2001	2002	2003	2004
Approved qualification	80.4	77.9	79.8	79.6	78.8	78.7	77.6	78.3	75.1
Non-approved qualification	15.8	16.0	14.4	14.7	14.7	14.0	13.6	12.6	15.0
Foreign language learning	3.8	6.1	5.7	5.7	6.5	7.3	8.8	9.1	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: FH.

**Table 5.19: The distribution of those entering into the training programmes by age groups and educational level for male and female participants**

	2002			2003			2004		
	Male	Female	Together	Male	Female	Together	Male	Female	Together
Total number of entrants	18,901	27,088	45,989	17,901	27,191	45,092	11,077	14,683	25,760
Entrants by gender	41.1	58.9	100.0	39.7	60.3	100.0	43.0	57.0	100.0
<b>Distribution by age groups</b>									
-20	12.9	10.0	11.2	12.9	8.7	10.4	11.2	7.3	9.0
20-24	28.5	23.1	25.3	28.1	21.5	24.1	25.5	20.0	22.3
-25	41.4	33.0	36.5	41.0	30.2	34.5	36.6	27.3	31.3
25-44	47.0	57.7	53.3	47.6	59.3	54.7	48.7	59.6	54.9
45-49	6.6	6.4	6.4	6.2	6.7	6.5	8.0	7.9	7.9
50+	5.0	2.9	3.8	5.2	3.7	4.3	6.7	5.2	5.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>By educational level</b>									
Less than primary school	0.9	0.4	0.6	1.9	0.8	1.3	2.3	1.2	1.7
Primary school	27.5	17.7	21.7	29.0	19.2	23.1	30.0	19.2	23.8
Vocational schools	36.7	23.1	28.7	33.5	22.5	26.9	32.9	21.8	26.6
Vocational and technical secondary schools	21.3	29.5	26.1	21.1	28.7	25.7	20.2	27.7	24.5
Grammar school	8.9	20.9	15.9	8.8	19.9	15.5	8.3	18.7	14.2
College, university	4.8	8.5	6.9	5.6	8.9	7.6	6.3	11.4	9.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: FH.

**Table 5.20: The distribution of registered unemployment by educational attainment, yearly averages**

Educational level	1996	1997	1998	1999	2000	2001	2002	2003	2004
Primary school or less	41.2	40.8	40.6	40.4	41.0	42.0	42.4	42.7	42.3
Vocational schools	35.1	35.6	36.0	35.7	34.9	34.1	33.5	32.9	32.3
Vocational secondary schools	12.7	12.8	12.9	13.2	13.2	13.1	13.2	13.1	13.4
Grammar school	8.3	8.0	7.9	8.0	8.0	7.7	7.6	7.5	7.7
College	2.0	2.0	1.9	2.0	2.1	2.2	2.4	2.7	3.1
University	0.8	0.7	0.7	0.7	0.7	0.8	0.9	1.0	1.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: FH.

**Table 5.21: The distribution of registered unemployed school-leavers by educational attainment, yearly averages**

Educational level	1996	1997	1998	1999	2000	2001	2002	2003	2004
Primary school or less	4.6	20.2	23.4	25.3	26.8	31.1	33.7	34.7	35.2
Vocational schools	41.9	35.7	34.1	30.9	27.8	23.7	20.6	20.4	20.2
Vocational secondary schools	27.0	23.9	24.2	25.0	25.4	25.3	25.5	23.2	22.1
Grammar school	21.8	15.5	14.0	13.6	13.7	12.6	11.6	10.8	10.7
College	3.6	3.5	3.4	4.0	4.8	5.5	6.2	7.7	8.1
University	1.1	1.1	1.0	1.2	1.5	1.8	2.4	3.3	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: FH.

**Table 5.22: The number of registered unemployed by educational attainment, yearly averages**

Educational level	1996	1997	1998	1999	2000	2001	2002	2003	2004
Primary school or less	206,078	191,772	171,882	165,465	160,099	153,085	146,260	152,395	159,089
Vocational schools	175,650	167,585	152,164	146,226	136,291	124,078	115,323	117,620	121,588
Vocational secondary schools	63,470	60,332	54,765	54,034	51,702	47,845	45,614	46,927	50,344
Grammar school	41,751	37,376	33,458	32,768	31,164	28,219	26,223	26,960	29,093
College	9,887	9,529	8,061	8,194	8,360	8,149	8,324	9,740	11,538
University	3,786	3,519	2,792	2,832	2,876	2,764	2,971	3,570	4,298
Total	500,622	470,112	423,121	409,519	390,492	364,140	344,715	357,212	375,950

Source: FH.

**Table 5.23: The number of registered unemployed school-leavers by educational attainment, yearly averages**

Educational level	1996	1997	1998	1999	2000	2001	2002	2003	2004
Primary school or less	2,125	8,583	7,612	7,568	6,979	8,332	9,606	10,853	11,896
Vocational schools	19,361	15,147	11,111	9,241	7,249	6,355	5,894	6,372	6,833
Vocational secondary schools	12,489	10,129	7,864	7,468	6,625	6,778	7,271	7,270	7,461
Grammar school	10,086	6,590	4,548	4,078	3,566	3,366	3,310	3,375	3,606
College	1,656	1,491	1,099	1,211	1,247	1,463	1,766	2,401	2,749
University	516	461	318	361	378	469	697	1,020	1,218
Total	46,233	42,401	32,551	29,927	26,044	26,763	28,542	31,292	33,763

Source: FH.

Table 6.1: Nominal and real earnings

Year	Gross earnings	Net earnings	Gross earnings index	Net earnings index	Consumer price index	Real earnings index
	HUF		previous year = 100%			
1989	10,571	8,165	117.9	116.9	117.2	99.7
1990	13,446	10,108	128.6	121.6	128.9	94.3
1991	17,934	12,948	130.0	125.5	135.0	93.0
1992	22,294	15,628	125.1	121.3	123.0	98.6
1993	27,173	18,397	121.9	117.7	122.5	96.1
1994	33,939	23,424	124.9	127.3	118.8	107.2
1995	38,900	25,891	116.8	112.6	128.2	87.8
1996	46,837	30,544	120.4	117.4	123.6	95.0
1997	57,270	38,145	122.3	124.1	118.3	104.9
1998	67,764	45,162	118.3	118.4	114.3	103.6
1999	77,187	50,076	116.1	112.7	110.0	102.5
2000	87,645	55,785	113.5	111.4	109.8	101.5
2001	103,553	64,913	118.0	116.2	109.2	106.4
2002	122,482	77,622	118.3	119.6	105.3	113.6
2003	137,187	88,751	112.0	114.3	104.7	109.2
2004	145,675	93,783	106.1	105.7	106.8	98.9

Source: KSH IMS.

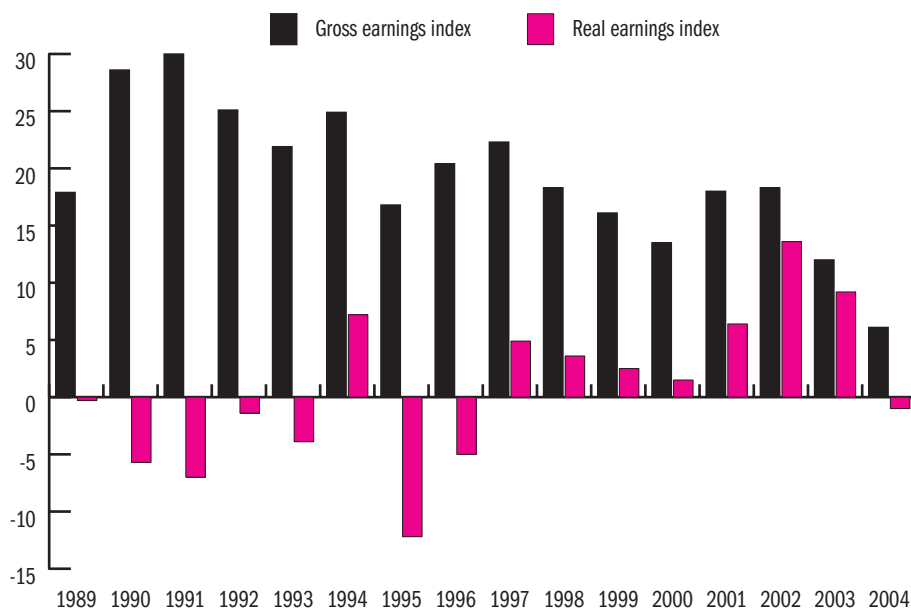


Figure 6.1: Change of gross earnings and net earnings

Table 6.2: Gross average earnings by industry – total\*

Industry	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture	72.6	76.8	74.9	73.7	72.0	69.3	67.6	69.6	68.8	65.1	66.6
Mining and quarrying	127.4	130.5	128.3	134.4	125.4	124.1	128.8	122.9	113.2	108.7	111.3
Manufacturing	95.8	99.7	100.7	100.6	99.1	98.9	100.6	97.7	92.8	90.4	93.7
Electricity, gas, steam and water supply	123.6	130.6	133.5	132.2	133.3	135.4	136.4	131.0	126.9	127.0	132.1
Construction	89.3	83.7	82.0	81.9	79.9	73.5	73.3	77.0	70.4	68.4	68.5
Wholesale and retail trade	97.0	93.3	97.1	93.8	92.5	86.7	88.7	87.5	87.0	84.2	83.9
Hotels and restaurants	82.6	75.5	75.3	71.6	68.5	64.9	64.6	65.8	66.2	63.8	61.9
Transport, storage and communication	104.6	106.5	110.0	110.5	112.3	114.3	112.7	110.5	106.6	103.9	108.4
Financial intermediation	184.6	183.0	189.5	199.2	210.2	214.2	216.1	208.6	197.0	199.6	222.6
Real estate, renting, business activities	112.8	107.2	110.5	106.8	119.7	115.8	115.3	117.6	109.2	105.8	106.0
Public administration and defence; compulsory social security	118.0	117.9	114.3	114.1	111.7	120.3	118.0	127.2	137.1	131.8	126.7
Education	94.0	89.6	83.3	86.4	88.3	94.4	92.7	94.3	105.1	118.4	110.2
Health and social work	86.8	83.4	80.1	79.2	77.9	76.6	77.9	76.1	84.3	94.7	90.2
Other	102.1	102.5	102.2	95.2	94.3	92.2	91.1	88.5	91.1	94.2	94.6

\* National average = 100.

Source: KHS, IMS.

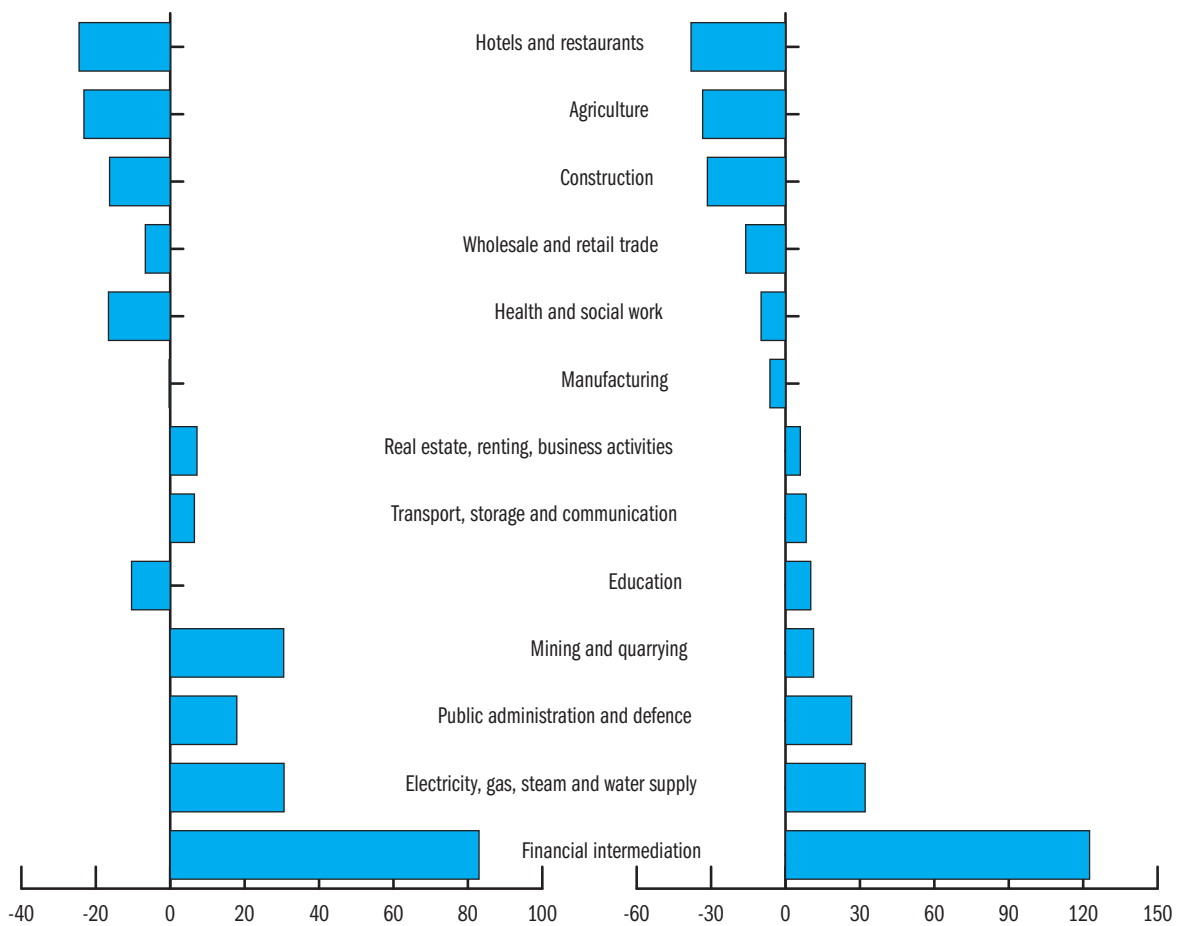


Figure 6.2: Gross earnings as a percentage of national average, by industry, 1995, 2004

**Table 6.3: The composition of full-time employees and average earnings by gender in major branches of the economy in 2004**

Industries	Males		Females		Together		Female/ male earnings ratio
	Composi- tion	Average earning	Composi- tion	Average earning	Composi- tion	Average earning	
	%	HUF/ person, month	%	HUF/ person, month	%	HUF/ person, month	
Agriculture	5.7	102,322	1.8	91,226	3.8	99,797	89.2
Fishing	0.2	87,134	0.0	89,451	0.1	87,523	102.7
Mining and quarrying	0.6	142,321	0.1	134,235	0.3	141,277	94.3
Manufacturing	28.5	153,907	20.0	112,214	24.4	137,189	72.9
Electricity, gas, steam, water supply	4.1	180,669	1.3	164,519	2.7	176,855	91.1
Construction	8.5	102,956	1.1	116,679	4.9	104,441	113.3
Wholesale and retail trade	13.1	128,893	12.4	108,870	12.8	119,405	84.5
Hotels and restaurants	1.7	112,864	2.4	83,767	2.0	95,979	74.2
Transport, storage and communication	12.0	166,466	5.5	153,166	8.8	162,416	92.0
Financial intermediation	1.2	407,685	3.2	237,480	2.1	285,039	58.3
Real estate, renting, business activities	6.0	170,858	5.0	142,494	5.5	158,338	83.4
Public administration and defence, compulsory social security	6.2	216,935	13.3	180,535	9.7	192,442	83.2
Education	5.2	188,127	18.0	154,320	11.4	162,157	82.0
Health and social work	3.8	157,861	13.2	134,902	8.4	140,229	85.5
Other	3.3	137,537	2.7	134,376	3.0	136,160	97.7
Total	100.0	154,352	100.0	139,515	100.0	147,111	90.4

Source: FH-BT.

**Table 6.4: The composition of full-time employees and average earnings in the economy by gender and level of education in 2004**

Level of education	Males		Females		Together		Female/ male earnings ratio
	Composi- tion	Average earning	Composi- tion	Average earning	Composi- tion	Average earning	
	%	HUF/ person, month	%	HUF/ person, month	%	HUF/ person, month	
Primary school 0-7 classes	0.6	95,483	0.6	90,308	0.6	92,900	94.6
Finished primary school (8 classes)	14.0	95,480	18.2	84,627	16.0	89,472	88.6
Vocational school (2 yrs)	2.4	95,765	2.3	96,023	2.4	95,886	100.3
Vocational school (3 yrs)	38.2	107,697	14.8	85,974	26.8	101,833	79.8
Vocational secondary school	15.6	144,675	22.0	132,336	18.7	137,602	91.5
Technical secondary school	5.1	165,778	2.7	132,739	3.9	154,588	80.1
Grammar school	6.1	142,166	14.5	130,575	10.2	134,148	91.8
College	8.9	272,306	17.7	202,036	13.2	226,329	74.2
University	9.0	364,814	7.2	295,484	8.1	334,910	81.0
Total	100.0	154,352	100.0	139,515	100.0	147,111	90.4

Source: FH-BT.

**Table 6.5: The composition of full-time employees and average earnings in the budgetary sector by gender and level of education in 2004**

Level of education	Males		Females		Together		Female/ male earnings ratio
	Composi- tion	Average earning	Composi- tion	Average earning	Composi- tion	Average earning	
	%	HUF/ person, month	%	HUF/ person, month	%	HUF/ person, month	
Primary school 0-7 classes	0.6	112,692	0.7	105,396	0.7	107,054	93.5
Finished primary school (8 classes)	12.5	101,441	15.8	89,290	14.9	92,040	88.0
Vocational school (2 yrs)	1.0	117,393	1.6	116,534	1.5	116,698	99.3
Vocational school (3 yrs)	18.1	106,671	6.8	101,458	9.8	104,048	95.1
Vocational secondary school	12.7	157,968	20.6	141,011	18.5	144,149	89.3
Technical secondary school	1.8	157,022	0.8	161,571	1.1	159,512	102.9
Grammar school	7.4	142,125	13.2	132,374	11.7	134,044	93.1
College	20.3	240,986	30.4	190,965	27.6	200,843	79.2
University	25.6	311,974	10.2	276,874	14.3	293,751	88.7
Total	100.0	196,022	100.0	157,586	100.0	167,938	80.4

Source: FH-BT.



**Table 6.6: The composition of full-time employees and average earnings in the competitive sector by gender and level of education in 2004**

Level of education	Males		Females		Together		Female/ male earnings ratio
	Composi- tion	Average earning	Composi- tion	Average earning	Composi- tion	Average earning	
	%	HUF/ person, month	%	HUF/ person, month	%	HUF/ person, month	
Primary school 0-7 classes	0.6	92,486	0.6	74,840	0.6	86,025	80.9
Finished primary school (8 classes)	14.3	94,493	20.2	81,627	16.5	88,473	86.4
Vocational school (2 yrs)	2.7	94,210	2.8	86,429	2.7	91,135	91.7
Vocational school (3 yrs)	42.0	107,781	21.5	81,960	34.1	101,558	76.0
Vocational secondary school	16.2	142,710	23.2	125,992	18.9	134,835	88.3
Technical secondary school	5.7	166,306	4.3	128,265	5.2	154,142	77.1
Grammar school	5.9	142,176	15.5	129,308	9.6	134,203	90.9
College	6.8	289,949	7.3	239,891	7.0	269,875	82.7
University	5.9	408,159	4.7	328,792	5.4	381,885	80.6
Total	100.0	146,494	100.0	124,633	100.0	138,116	85.1

Source: FH-BT.

**Table 6.7: Percentage of low paid workers\* by gender, age groups, level of education and industries**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>By gender</b>												
Males	16.9	16.1	15.2	15.6	18.1	18.1	18.8	22.1	20.7	22.3	24.8	25.1
Females	21.3	25.6	24.8	26.5	25.7	25.9	26.4	26.8	25.0	22.5	21.6	22.8
<b>By age groups</b>												
-24	39.6	42.4	40.2	37.8	39.1	37.7	37.9	37.0	35.5	37.6	39.9	43.9
25-54	16.9	18.7	18.0	19.4	20.2	20.6	21.3	22.8	21.9	21.8	22.3	23.6
55+	12.7	11.4	10.3	11.0	11.8	12.7	17.2	19.8	18.1	16.2	15.3	16.5
<b>By level of education</b>												
1-8 classes of primary school	...	40.4	37.6	40.1	40.6	42.9	43.9	43.4	40.4	38.3	37.1	39.6
Vocational schools	...	25.9	24.7	23.7	27.0	26.9	28.6	31.2	29.4	32.1	35.4	35.7
Secondary schools	...	12.0	12.9	13.1	14.0	14.2	15.4	18.8	18.0	16.5	17.7	18.6
Higher education	...	1.9	3.1	3.2	3.0	3.4	3.2	4.7	4.7	3.6	3.5	3.9
<b>By industries</b>												
Agriculture	31.9	38.4	32.1	30.1	36.7	36.7	38.1	38.0	34.3	37.9	37.3	37.1
Manufacturing	16.4	18.9	16.4	15.8	18.5	18.9	18.9	20.0	19.1	19.4	25.4	24.7
Construction	15.7	23.3	23.5	26.7	32.7	32.6	36.7	42.9	41.7	44.8	49.8	51.2
Trade	25.1	30.4	31.9	31.7	36.0	37.7	36.8	42.8	41.3	44.0	49.0	49.3
Transport and communication	8.6	10.3	8.6	8.5	8.8	8.8	9.0	11.3	10.6	10.5	13.6	12.6
Finance and business services	14.2	16.4	17.9	17.0	19.9	19.9	21.1	25.3	22.6	20.7	23.1	23.9
Public administration	17.5	16.4	17.0	25.9	19.0	15.5	16.0	13.7	13.8	9.3	6.6	8.2
Education	21.2	19.0	20.6	25.6	21.7	23.2	23.8	21.5	22.6	16.0	4.8	6.9
Health	28.9	21.6	25.2	25.9	24.1	25.8	28.0	26.7	19.9	16.1	6.3	8.4
Total	19.2	20.8	19.9	21.0	21.9	22.0	22.7	24.4	22.8	22.4	23.2	24.0

\* Percentage of those who earn less than 2/3 of the median earning.

Source: FH-BT.

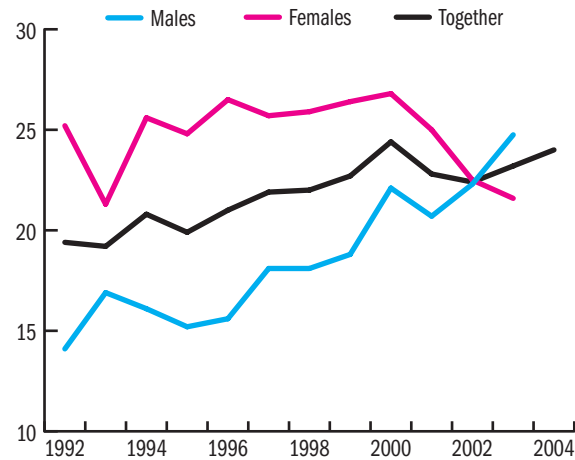


Figure 6.3: The composition of low paid workers by gender

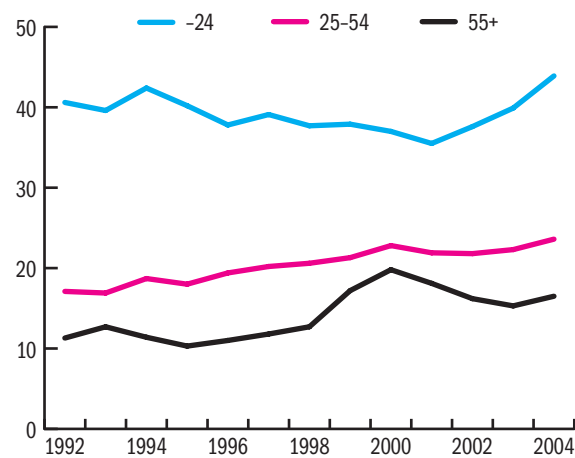


Figure 6.4: The composition of low paid workers by age groups

Table 6.8: The differentiation of gross monthly earnings by gender, ratios of deciles, 1992-2004

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Males and females together</b>													
D9/D5	2.0	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.4
D5/D1	1.8	1.8	1.9	1.9	1.9	1.9	1.9	2.0	2.2	1.9	1.8	2.0	2.0
D9/D1	3.6	3.6	3.9	3.9	4.0	4.2	4.2	4.4	4.9	4.2	4.1	4.6	4.8
<b>Males</b>													
D9/D5	2.0	2.1	2.1	2.1	2.1	2.2	2.3	2.3	2.1	2.4	2.5	2.5	2.6
D5/D1	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.1	2.4	2.0	1.8	2.1	2.1
D9/D1	3.6	3.7	4.0	3.9	4.0	4.5	4.5	4.8	5.1	4.9	4.5	5.2	5.4
<b>Females</b>													
D9/D5	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.0	2.2	2.1	2.2
D5/D1	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.9	2.0	1.8	1.7	1.9	1.9
D9/D1	3.3	3.5	3.6	3.6	3.7	3.7	3.7	3.8	4.1	3.6	3.7	4.0	4.2

Source: FH-BT.

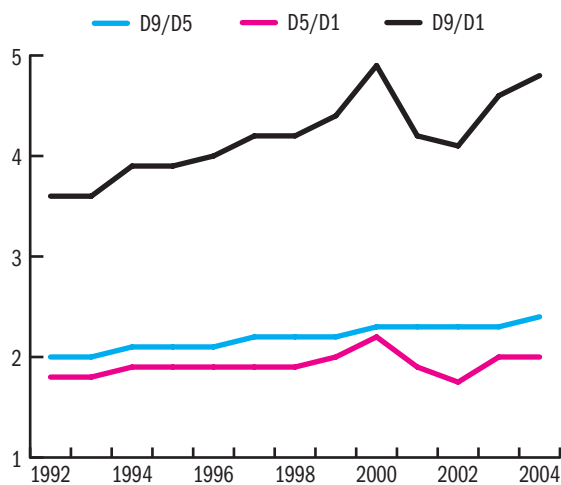


Figure 6.5: The dispersion of gross average earnings, 1992-2004

**Table 7.1: School leavers by level of education**

Year	Primary school	Vocational school	Secondary school	College and university
1980	119,809	49,232	43,167	14,859
1989	170,891	53,724	52,573	15,699
1990	164,614	54,933	53,039	15,963
1991	158,907	59,302	54,248	16,458
1992	151,287	66,261	59,646	16,201
1993	144,200	66,342	68,607	16,223
1994	136,857	62,902	68,604	18,041
1995	122,333	57,057	70,265	20,024
1996	120,529	54,209	73,413	22,128
1997	116,708	46,868	75,564	24,411
1998	113,651	42,866	77,660	25,338
1999	114,302	38,822	73,965	27,049
2000	114,250	35,500 <sup>a</sup>	72,200 <sup>a</sup>	28,300 <sup>a</sup>
2001	114,200 <sup>a</sup>	33,500 <sup>a</sup>	70,441	29,746
2002	113,923	26,941	69,612	30,785
2003	117,747	26,472	71,944	31,911
2004	113,179	26,620	76,669	31,633

<sup>a</sup> Estimated data.

Note: Primary school: completed the 8th grade. Other levels: received certificate. Excludes special schools.

Source: OM STAT.

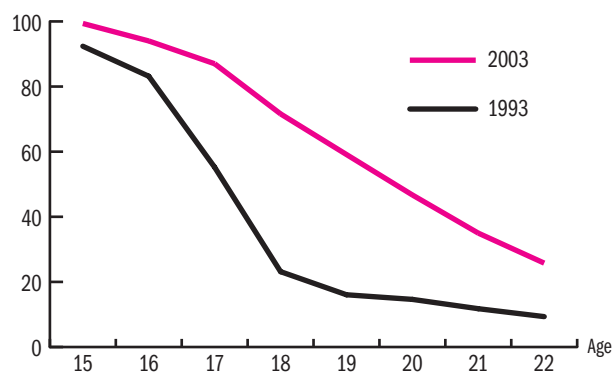
**Figure 7.1: Full time students as a percentage of the different age groups**

Table 7.2: Pupils/students entering the school system, by level of education

Year	Primary school	Vocational school	Secondary school	College and university
1980	171,347	60,865	57,213	17,886
1989	128,542	91,767	84,140	20,704
1990	125,665	87,932	83,939	22,662
1993	125,679	76,977	87,657	35,005
1994	126,032	77,146	87,392	37,934
1995	123,997	65,352	82,665	42,433
1996	124,554	58,822	84,773	44,698
1997	127,214	53,083	84,395	45,669
1998	125,875	39,965	86,868	48,886
1999	121,424	33,570	89,184	51,586
2000	117,000	33,900 <sup>a</sup>	90,800 <sup>a</sup>	52,578
2001	112,144	34,210	92,393	56,709
2002	112,345	33,497	94,256	57,763
2003	104,020	33,394	92,817	59,699
2004	101,021	32,645	93,469	59,783

<sup>a</sup> Estimated data.

Note: Excludes special schools.

Source: OM STAT.

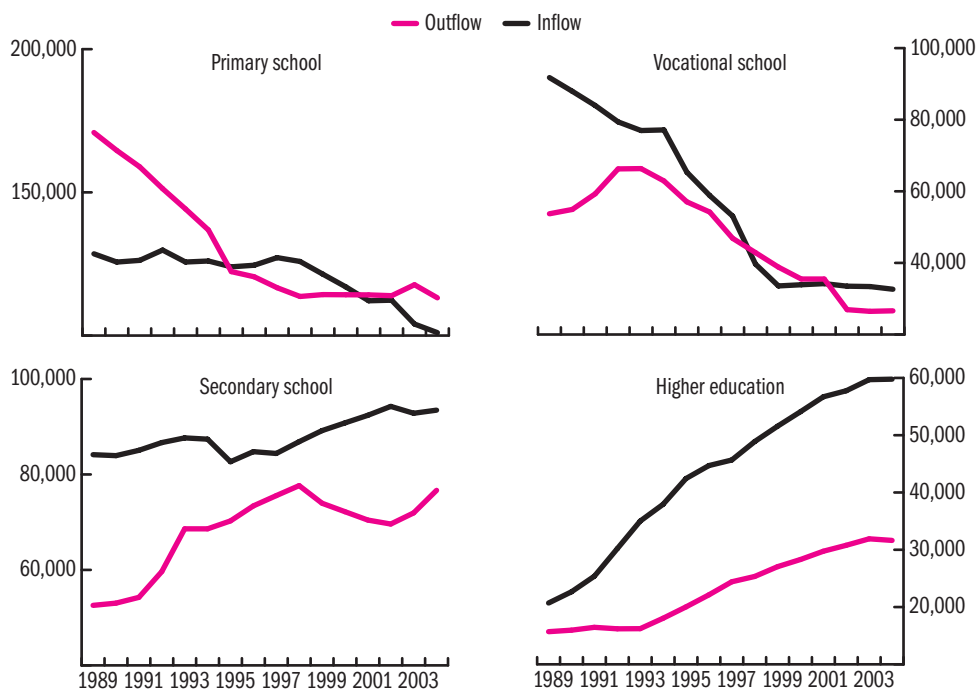


Figure 7.2: Flows of the educational system by level

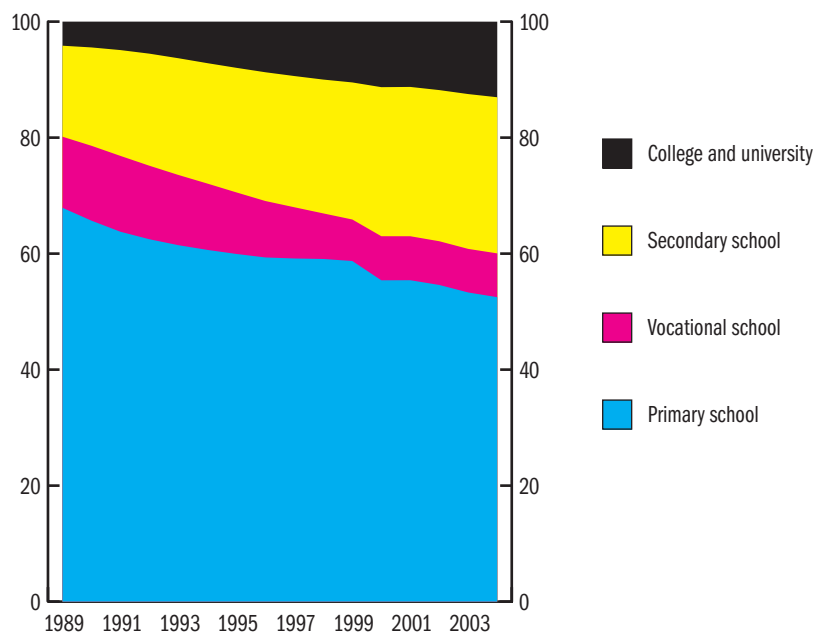
**Table 7.3: The number of full time pupils/students by level of education**

Year	Primary school	Vocational school	Secondary school	College and university
1980/81	1,162,203	162,709	203,238	64,057
1989/90	1,183,573	213,697	273,511	72,381
1990/91	1,130,656	222,204	291,872	76,601
1993/94	1,009,416	198,859	330,586	103,713
1994/95	985,291	185,751	337,317	116,370
1995/96	974,806	172,599	349,299	129,541
1996/97	965,998	158,407	361,395	142,113
1997/98	963,997	143,911	368,645	152,889
1998/99	964,248	128,203	376,626	163,100
1999/00	960,601	117,038	386,579	171,516
2000/01	957,850 <sup>a</sup>	120,330 <sup>a</sup>	417,800 <sup>a</sup>	176,046
2001/02	905,932	123,954	420,889	184,071
2002/03	893,261	123,341	426,384	193,155
2003/04	874,298	123,206	437,909	204,910
2004/05	854,930	123,008	438,496	212,292

<sup>a</sup> Estimated data.

Note: Excludes special schools.

Source: OM STAT.

**7.3: The percentage of sharing the pupils/students in the educational system**

**Table 7.4: The number of pupils/students not in full time by level**

Year	Primary school	Vocational school	Secondary school	College and university
1980/81	15,627	-	130,332	37,109
1989/90	13,199	-	75,581	28,487
1990/91	11,536	-	68,162	25,786
1991/92	11,724	-	66,204	23,888
1992/93	10,944	-	70,303	25,078
1993/94	8,982	-	76,335	30,243
1994/95	6,558	-	81,204	38,290
1995/96	5,205	-	75,891	50,024
1996/97	4,099	-	74,653	56,919
1997/98	3,165	-	78,292	80,768
1998/99	3,016	-	84,862	95,215
1999/00	3,146	-	88,462	107,385
2000/01	2,940	-	91,700	118,994
2001/02	2,793	2,453	95,231	129,167
2002/03	2,785	3,427	93,172	148,032
2003/04	3,190	3,216	93,322	162,037
2004/05	2,766	3,505	90,321	166,174

Source: OM STAT.

**Table 7.5: Number of high school applicants, full time**

Year	Applied	Admitted	Admitted as a percentage of applied	Applied as a percentage of the secondary school graduates in the given year	Admitted
1980	33,339	14,796	44.4	77.2	34.3
1989	44,138	15,420	34.9	84.0	29.3
1990	46,767	16,818	36.0	88.2	31.7
1991	48,911	20,338	41.6	90.2	37.5
1992	59,119	24,022	40.6	99.1	40.3
1993	71,741	28,217	39.3	104.6	41.1
1994	79,805	29,901	37.5	116.3	43.6
1995	86,548	35,081	40.5	123.2	49.9
1996	79,369	38,382	48.4	108.1	52.3
1997	81,924	40,355	49.3	108.4	53.4
1998	81,065	43,629	53.8	104.4	56.2
1999	82,815	44,538	53.8	112.0	60.2
2000	82,957	45,546	54.9	114.9	63.1
2001	84,380	49,874	59.1	119.8	70.8
2002	88,978	52,552	59.1	127.8	75.5
2003	87,110	52,703	60.5	121.1	73.3
2004	95,871	55,179	57.6	125.0	72.0

Source: OM STAT.



Table 8.1: Registered vacancies\*

Year	Number of vacancies at closing day	Number of registered unemployed at closing date	Vacancies per 100 unemployed
1989	60,429	23,760	254.3
1990	31,228	47,739	65.4
1991	14,343	227,270	6.3
1992	21,793	556,965	3.9
1993	34,375	671,745	5.1
1994	35,569	568,366	6.3
1995	28,680	507,695	5.6
1996	38,297	500,622	7.6
1997	42,544	470,112	9.0
1998	46,624	423,121	11.0
1999	51,438	409,519	12.6
2000	50,000	390,492	12.8
2001	45,194	364,140	12.4
2002	44,603	344,715	12.9
2003	47,239	357,212	13.2
2004	48,223	375,950	12.8

\* Monthly average stock figures.

Source: FH.

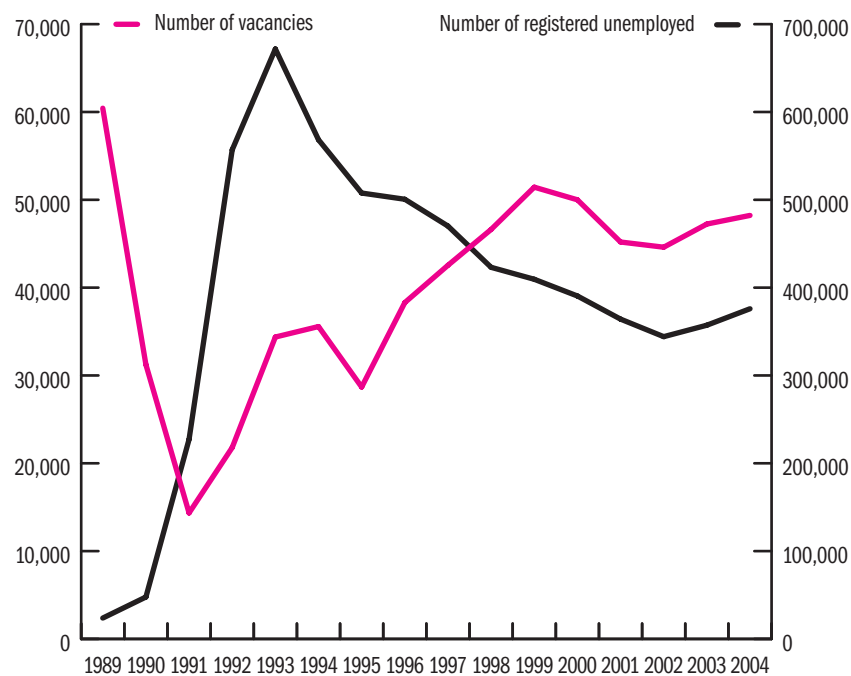


Figure 8.1: Number of registered vacancies and registered unemployed

Table 8.2: Firms intending to increase/decrease their staff\*

Year	Intending to decrease	Intending to increase
1993	28.5	22.3
1994	21.0	29.7
1995	30.9	27.5
1996	29.4	30.4
1997	30.7	36.8
1998	28.9	37.1
1999	28.8	35.8
2000	27.2	36.5
2001	28.6	32.6
2002	27.9	35.4
2003	32.1	34.3
2004	30.0	39.8

\* In the period of the next half year after the interview date, in the sample of FH PROG.  
Source: FH PROG.

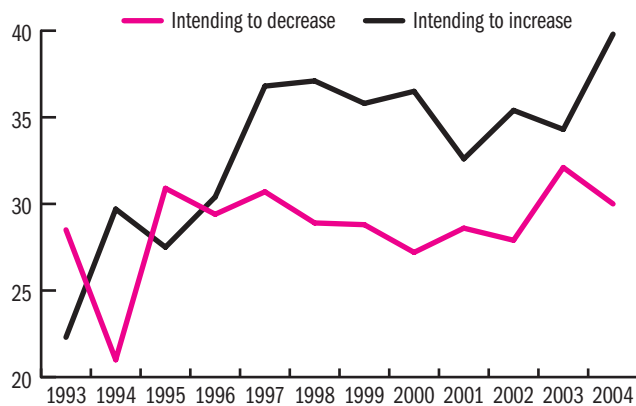


Figure 8.2: Firms intending to increase/decrease their staff

Table 8.3: Firms expecting increasing/decreasing orders\*

Year	Orders	
	increasing	decreasing
1993	35.9	33.0
1994	45.6	21.7
1995	47.2	20.7
1996	45.5	21.0
1997	47.5	16.7
1998	47.5	18.0
1999	42.2	20.2
2000	49.1	14.9
2001	44.4	19.1
2002	40.2	19.5
2003	49.0	13.8
2004	38.2	20.5

\* In the period of the next half year after the interview date, in the sample of FH PROG.  
Source: FH PROG.

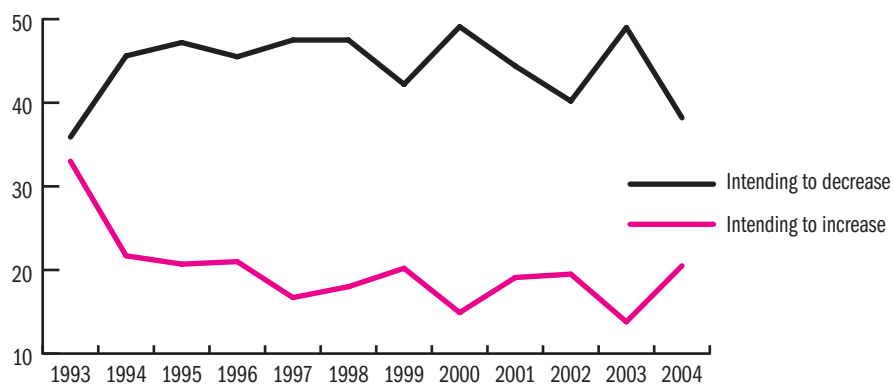


Figure 8.3: Firms expecting increasing/decreasing orders

**Table 8.4: Firms activating new capacities\***

Year	Building only	Building and/or machinery	Total
1992	3.0	11.4	14.4
1993	3.0	14.7	17.7
1994	4.1	17.4	21.5
1995	4.4	18.8	23.2
1996	4.2	19.5	23.7
1997	4.7	21.1	25.8
1998	5.4	23.6	29.0
1999	5.2	20.9	26.1
2000	4.4	23.9	28.3
2001	4.7	22.9	27.6
2002	3.3	22.8	26.1
2003	...	...	...
2004	5.3	30.2	35.5

\* In the period of the next half year after the interview date, in the sample of FH PROG.

Source: FH PROG.

**Table 9.1: Regional inequalities: Labour force participation rates\***

Year	Central Hungary	Central Transdanubia	Western Transdanubia	Southern Transdanubia	Northern Hungary	Northern Great Plain	Southern Great Plain	Total
1992	62.3	57.7	62.0	57.2	52.2	52.5	57.9	58.0
1993	58.4	55.2	60.5	52.9	49.3	48.4	53.4	54.5
1994	57.2	54.4	59.9	52.4	47.7	47.5	53.0	53.5
1995	57.1	53.1	58.5	48.8	46.3	46.4	53.0	52.5
1996	56.8	52.7	59.3	50.3	45.7	45.6	52.8	52.4
1997	56.8	53.6	59.8	50.0	45.7	45.2	53.6	52.5
1998	57.7	56.0	61.6	51.5	46.2	46.4	54.2	53.7
1999	59.7	58.5	63.1	52.8	48.1	48.8	55.3	55.6
2000	60.5	59.2	63.4	53.5	49.4	49.0	56.0	56.3
2001	60.8	59.8	63.2	52.5	49.6	49.6	56.2	56.5
2001 <sup>a</sup>	60.6	59.3	63.1	52.3	49.7	49.5	55.8	56.2
2002 <sup>a</sup>	60.9	60.0	63.7	51.6	50.3	49.3	54.2	56.2
2003 <sup>a</sup>	61.7	62.3	61.9	53.4	51.2	51.6	53.2	57.0
2004 <sup>a</sup>	62.9	60.3	61.4	52.3	50.6	50.4	53.6	56.8

\* Age: 15–74.

<sup>a</sup> See note of Table 3.7.

Source: KSH MEF.

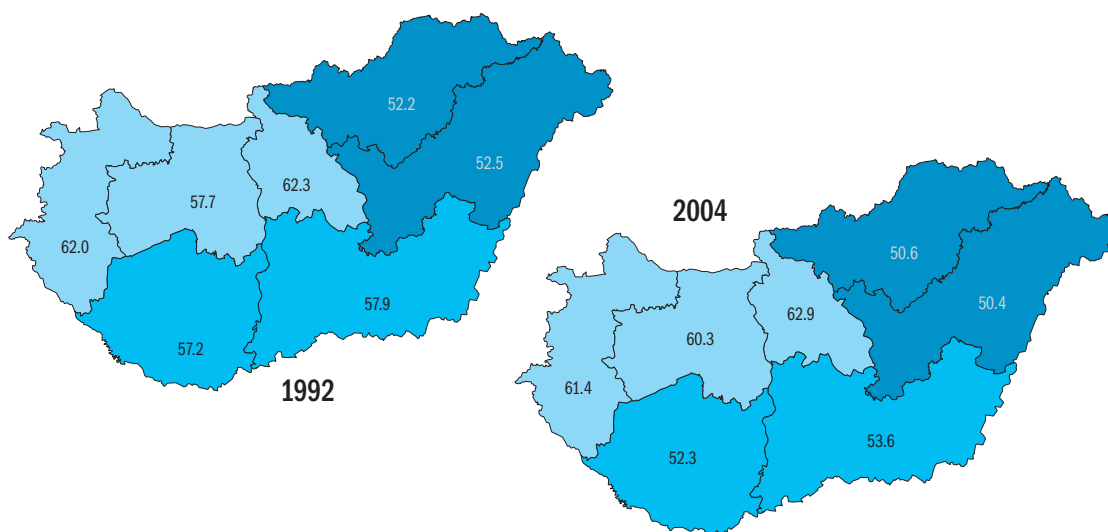
**Figure 9.1: Regional inequalities: Labour force participation rates in NUTS-2 level regions**

Table 9.2: Regional inequalities: Unemployment rate\*

Year	Central Hungary	Central Transdanubia	Western Transdanubia	Southern Transdanubia	Northern Hungary	Northern Great Plain	Southern Great Plain	Total
1992	7.4	11.7	7.3	9.6	14.0	12.5	10.2	9.9
1993	9.9	12.6	9.0	12.8	16.1	14.8	12.4	12.1
1994	8.8	10.7	7.7	12.0	15.2	13.8	10.5	10.8
1995	7.4	11.0	6.9	12.1	16.0	13.8	9.3	10.3
1996	8.2	10.4	7.1	9.4	15.5	13.2	8.4	10.0
1997	7.0	8.1	6.0	9.9	14.0	12.0	7.3	8.8
1998	5.7	6.8	6.1	9.4	12.2	11.1	7.1	7.8
1999	5.2	6.1	4.4	8.3	11.6	10.2	5.8	7.0
2000	5.3	4.9	4.2	7.8	10.1	9.3	5.1	6.4
2001	4.3	4.3	4.2	7.8	8.5	7.8	5.4	5.7
2001 <sup>a</sup>	4.3	4.3	4.1	7.7	8.5	7.8	5.4	5.7
2002 <sup>a</sup>	3.9	5.0	4.0	7.9	8.8	7.8	6.2	5.8
2003 <sup>a</sup>	4.0	4.6	4.6	7.9	9.7	6.8	6.5	5.9
2004 <sup>a</sup>	4.5	5.6	4.6	7.3	9.7	7.2	6.3	6.1

\* Age: 15–74.

<sup>a</sup> See note of Table 3.7.

Source: KSH MEF.

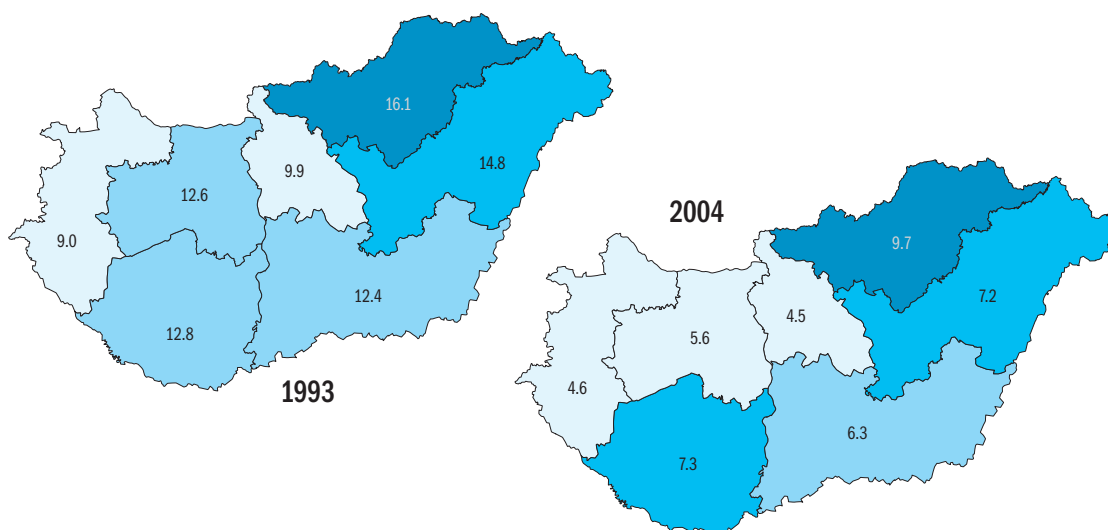


Figure 9.2: Regional inequalities: LFS-based unemployment rates in NUTS-2 level regions

**Table 9.3: Regional inequalities: Registered unemployment rate\***

Year	Central Hungary	Central Transdanubia	Western Transdanubia	Southern Transdanubia	Northern Hungary	Northern Great Plain	Southern Great Plain	Total
1991	1.7	3.7	2.8	4.8	7.0	6.5	5.2	4.1
1992	5.7	10.4	7.2	10.8	15.7	15.0	12.2	10.3
1993	8.0	12.8	9.1	13.1	19.1	18.2	14.7	12.9
1994	6.6	11.5	8.5	11.9	16.6	16.9	12.9	11.3
1995	6.3	10.6	7.6	11.7	15.6	16.1	11.5	10.6
1996	6.4	10.7	8.0	12.6	16.7	16.8	11.3	11.0
1997	5.6	9.9	7.3	13.1	16.8	16.4	11.0	10.5
1998	4.7	8.6	6.1	11.8	16.0	15.0	10.1	9.5
1999	4.5	8.7	5.9	12.1	17.1	16.1	10.4	9.7
2000	3.8	7.5	5.6	11.8	17.2	16.0	10.4	9.3
2001	3.2	6.7	5.0	11.2	16.0	14.5	9.7	8.5
2002	2.8	6.6	4.9	11.0	15.6	13.3	9.2	8.0
2003	2.8	6.7	5.2	11.7	16.2	14.1	9.7	8.3
2004	3.2	6.9	5.8	12.2	15.7	14.1	10.4	8.7

\* The denominator of the ratio is the active population on January 1st of the previous year.

Source: FH REG.

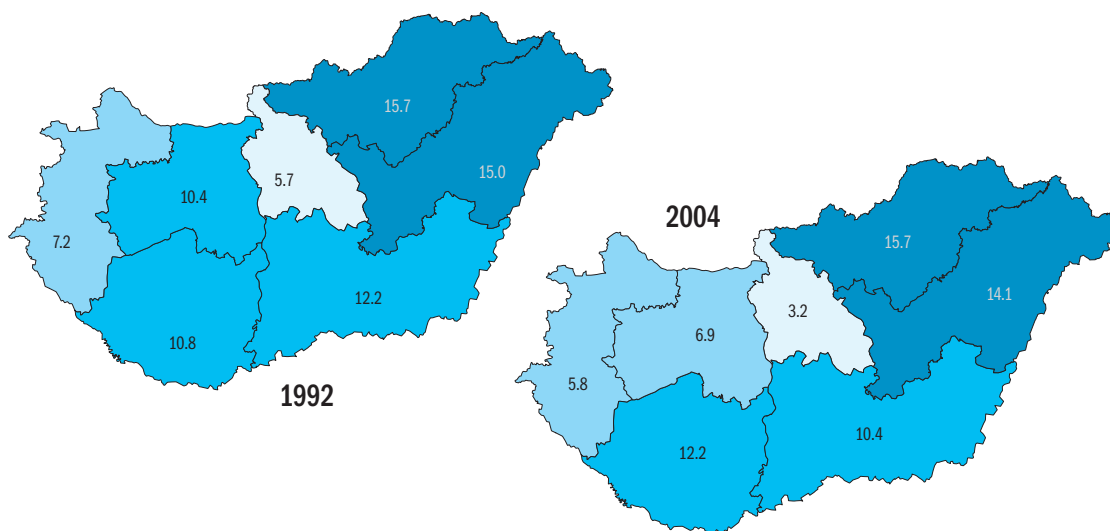
**Figure 9.3: Regional inequalities: Registered unemployment rate in NUTS-2 level regions**



Table 9.4: Annual average registered unemployment rate by counties

County	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Budapest	0.1	4.6	6.6	5.9	5.7	5.7	4.8	4.0	3.7	3.0	2.6	2.2	2.4	2.8
Baranya	1.1	11.2	13.2	11.7	11.8	12.2	13.3	11.8	11.6	11.6	11.1	11.2	11.9	11.6
Bács-Kiskun	1.1	13.4	16.0	13.1	11.0	10.9	10.7	9.7	10.0	10.0	9.3	8.8	9.4	9.9
Békés	1.1	13.3	16.3	15.1	14.0	14.0	13.5	13.0	13.0	13.1	11.9	11.2	11.5	12.0
Borsod-Abaúj-Zemplén	2.3	16.7	20.2	17.5	16.7	18.0	19.0	17.9	19.5	20.3	19.0	19.1	19.6	18.3
Csongrád	1.0	9.8	11.7	10.8	9.9	9.3	9.2	8.1	8.5	8.6	8.3	8.1	8.5	9.7
Fejér	1.0	10.1	12.5	11.3	10.6	10.4	9.4	8.4	8.3	7.2	6.4	6.4	7.1	7.3
Győr-Moson-Sopron	0.5	6.9	8.2	7.7	6.8	7.4	6.4	5.1	4.8	4.6	4.1	4.0	4.1	4.6
Hajdú-Bihar	0.9	11.5	16.6	15.3	14.2	15.6	15.0	14.0	15.6	14.7	13.6	12.8	13.1	12.9
Heves	1.6	12.7	15.2	13.9	12.5	13.6	12.1	11.7	12.3	12.0	10.6	9.8	10.0	10.6
Jász-Nagykun-Szolnok	1.6	14.4	17.1	15.8	14.6	14.8	14.8	13.5	13.7	13.4	11.5	10.2	10.7	11.2
Komárom-Esztergom	1.0	11.5	14.4	12.6	11.3	12.0	11.4	9.8	10.1	8.3	7.0	6.7	6.0	5.8
Nógrád	2.4	16.8	21.3	17.2	16.3	17.0	16.3	15.6	16.2	14.9	14.3	13.8	14.6	14.6
Pest	0.5	8.1	11.0	8.1	7.6	7.8	7.3	6.3	6.0	5.2	4.4	3.7	3.7	3.8
Somogy	1.4	9.2	11.6	10.9	11.2	12.5	12.7	11.3	12.2	11.9	11.6	11.5	12.2	13.4
Szabolcs-Szatmár-Bereg	2.6	18.9	20.6	19.3	19.3	19.7	18.9	17.2	18.7	19.5	17.8	16.7	17.7	17.5
Tolna	1.6	12.1	14.7	13.4	12.2	13.4	13.5	12.3	12.9	11.8	11.0	10.0	10.7	11.6
Vas	0.4	7.3	9.1	8.3	7.2	7.2	6.7	5.6	5.6	5.2	4.9	4.5	5.0	6.0
Veszprém	0.9	9.9	11.9	10.9	10.0	9.9	9.2	7.9	8.2	7.2	6.9	6.6	7.0	7.3
Zala	0.8	7.7	10.3	9.8	9.2	9.8	9.2	8.1	7.7	7.2	6.5	6.4	7.0	7.4
Together	1.0	10.3	12.9	11.3	10.6	11.0	10.5	9.5	9.7	9.3	8.5	8.0	8.3	8.7

Source: FH REG.

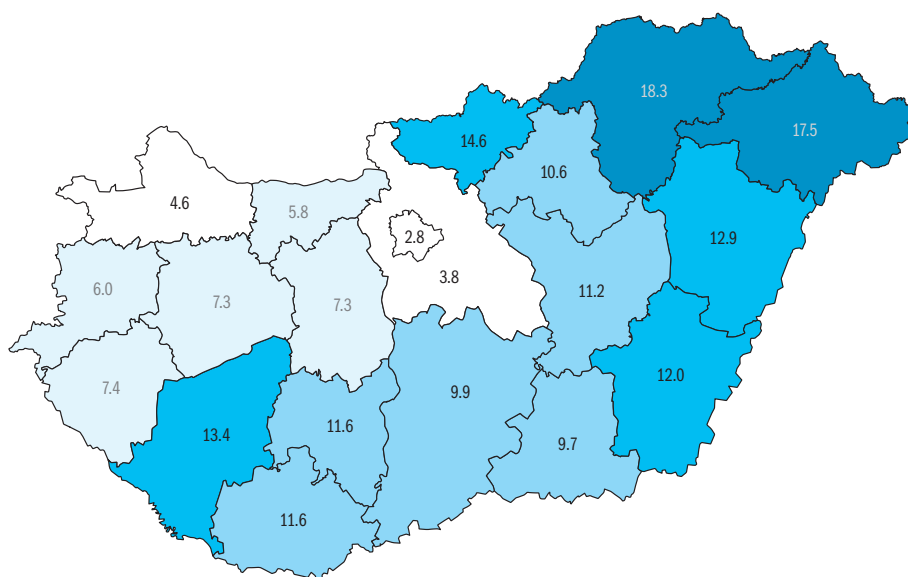


Figure 9.4: Regional inequalities: Registered unemployment rates in the counties

Table 9.5: Average monthly earnings in Budapest and the counties

County	1994		1998		2000		2001		2002		2003		2004	
	HUF/month	%	HUF/month	%	HUF/month	%	HUF/month	%	HUF/month	%	HUF/month	%	HUF/month	%
Budapest	45,180	126.8	90,949	131.0	121,450	134.4	140,312	135.4	157,624	134.0	180,811	133.2	194,981	132.5
Baranya	32,445	91.1	63,391	91.3	76,243	84.4	89,479	86.4	100,142	85.1	118,218	87.1	128,500	87.3
Bács-Kiskun	30,124	84.6	57,325	82.6	71,141	78.8	83,432	80.5	97,645	83.0	113,129	83.3	119,468	81.2
Békés	30,725	86.3	57,433	82.7	69,552	77.0	79,718	76.9	93,643	79.6	108,338	79.8	118,545	80.6
Borsod-Abaúj-Zemplén	32,260	90.6	61,295	88.3	78,136	86.5	89,223	86.1	102,497	87.1	119,033	87.7	128,793	87.5
Csongrád	33,057	92.8	60,780	87.6	79,857	88.4	90,367	87.2	100,371	85.3	118,308	87.2	126,550	86.0
Fejér	37,068	104.1	73,592	106.0	94,758	104.9	108,290	104.5	119,613	101.7	137,704	101.4	146,057	99.3
Győr-Moson-Sopron	34,666	97.3	68,684	98.9	87,334	96.7	103,371	99.8	116,470	99.0	128,681	94.8	139,888	95.1
Hajdú-Bihar	31,978	89.8	58,907	84.9	74,922	82.9	87,352	84.3	98,118	83.4	117,859	86.8	125,891	85.6
Heves	33,033	92.7	62,163	89.6	83,440	92.4	92,861	89.6	106,287	90.3	119,423	88.0	130,589	88.8
Jász-Nagykun-Szolnok	30,554	85.8	59,441	85.6	75,121	83.2	89,393	84.3	100,761	85.6	115,301	84.9	123,627	84.0
Komárom-Esztergom	33,648	94.5	66,564	95.9	84,382	93.4	98,494	95.1	109,108	92.7	125,579	92.5	136,754	93.0
Nógrád	29,023	81.5	53,855	77.6	67,368	74.6	80,158	77.4	94,603	80.4	110,666	81.5	123,329	83.8
Pest	32,417	91.0	67,768	97.6	87,311	96.6	103,871	100.3	117,276	99.7	130,325	96.0	143,689	97.7
Somogy	29,791	83.6	56,888	82.0	68,725	76.1	80,440	77.6	90,561	77.0	111,752	82.3	116,852	79.4
Szabolcs-Szatmár-Bereg	30,675	86.1	56,218	81.0	71,403	79.0	79,937	77.2	95,491	81.2	112,163	82.6	122,342	83.2
Tolna	33,729	94.7	61,594	88.7	78,544	86.9	90,583	87.4	106,992	90.9	122,549	90.3	121,340	82.5
Vas	30,443	85.5	60,840	87.6	83,040	91.9	92,492	89.3	101,461	86.2	116,429	85.8	128,347	87.2
Veszprém	33,142	93.0	63,474	91.4	79,868	88.4	91,189	88.0	100,040	85.0	117,553	86.6	126,816	86.2
Zala	32,307	90.7	61,866	89.1	78,237	86.6	89,252	86.1	97,372	82.7	114,811	84.6	123,491	83.9
Total	35,620	100.0	69,415	100.0	90,338	100.0	103,610	100.0	117,672	100.0	135,742	100.0	147,111	100.0

Source: FH BT.

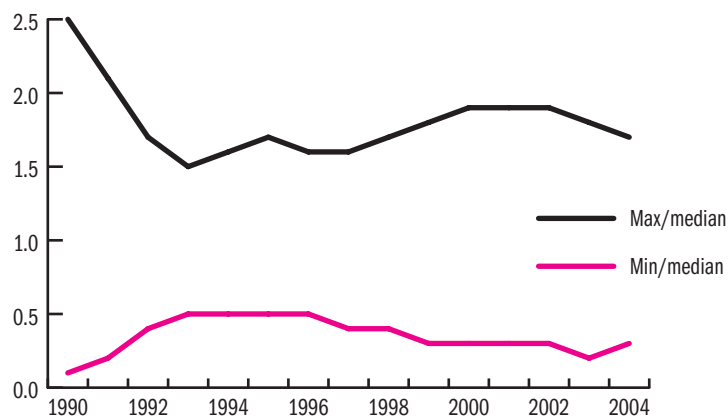


Figure 9.5: The dispersion of county level registered unemployment rates

Table 9.6: Regional inequalities: gross monthly earnings\*

Year	Central Hungary	Central Transdanubia	Western Transdanubia	Southern Transdanubia	Northern Hungary	Northern Great Plain	Southern Great Plain	Total
<b>HUF/person</b>								
1989	11,719	10,880	10,108	10,484	10,472	9,675	9,841	10,822
1992	27,172	22,174	20,975	19,899	20,704	19,563	20,047	22,465
1993	32,450	26,207	24,627	25,733	24,011	24,025	23,898	26,992
1994	43,010	34,788	32,797	31,929	31,937	31,131	31,325	35,620
1995	46,992	38,492	36,394	35,383	35,995	34,704	33,633	40,190
1996	58,154	46,632	44,569	43,015	41,439	41,222	41,208	47,559
1997	70,967	56,753	52,934	51,279	51,797	50,021	50,245	58,022
1998	86,440	68,297	64,602	60,736	60,361	58,208	58,506	69,415
1999	101,427	77,656	74,808	70,195	70,961	68,738	68,339	81,067
2000	114,637	87,078	83,668	74,412	77,714	73,858	73,591	90,338
2001	132,136	100,358	96,216	86,489	88,735	84,930	84,710	103,610
2002	149,119	110,602	106,809	98,662	102,263	98,033	97,432	117,672
2003	170,280	127,819	121,464	117,149	117,847	115,278	113,532	135,472
2004	184,039	137,168	131,943	122,868	128,435	124,075	121,661	147,111
<b>Per cent</b>								
1989	108.3	100.5	93.4	96.9	96.8	89.4	90.9	100.0
1992	121.0	98.7	93.4	88.6	92.2	87.1	89.2	100.0
1993	120.2	97.1	91.2	95.3	89.0	89.0	88.5	100.0
1994	120.7	97.7	92.1	89.6	89.7	87.4	87.9	100.0
1995	116.9	95.8	90.6	88.0	89.6	86.4	83.7	100.0
1996	122.3	98.1	93.7	90.4	87.1	86.7	86.6	100.0
1997	122.3	97.8	91.2	88.4	89.3	86.2	86.6	100.0
1998	124.5	98.4	93.1	87.5	87.0	83.9	84.3	100.0
1999	125.1	95.8	92.3	86.6	87.5	84.8	84.3	100.0
2000	126.9	96.4	92.6	82.4	86.0	81.8	81.5	100.0
2001	127.5	96.9	92.9	83.8	85.6	82.0	81.8	100.0
2002	126.7	94.0	90.8	83.8	86.9	83.3	82.8	100.0
2003	125.4	94.2	89.5	86.3	86.8	84.9	83.6	100.0
2004	125.1	93.2	89.7	83.5	87.3	84.3	82.7	100.0

\* Gross monthly earnings, May.

Note: The data refer to full-time employees in the budget sector and firms employing at least 20 workers (1992–94), 10 workers (1995–99) and 5 workers (2000–), respectively.

Source: FH BT.

Table 9.7: Regional inequalities: gross domestic product

Year	Central Hungary	Central Transdanubia	Western Transdanubia	Southern Transdanubia	Northern Hungary	Northern Great Plain	Southern Great Plain	Total
<b>1000 HUF/person</b>								
1994	619	365	424	353	292	311	350	422
1995	792	494	559	442	394	386	449	544
1996	993	617	701	532	459	468	539	669
1997	1,254	801	871	641	554	569	640	830
1998	1,474	969	1,083	754	662	660	742	983
1999	1,710	1,051	1,275	859	731	707	819	1,113
2000	2,014	1,255	1,468	957	827	815	918	1,290
2001	2,311	1,372	1,539	1,074	947	965	1,031	1,458
2002	2,701	1,462	1,703	1,204	1,050	1,062	1,136	1,648
2003	2,927	1,679	1,955	1,301	1,162	1,187	1,236	1,817
<b>Per cent</b>								
1994	145.6	86.4	100.7	84.0	69.6	73.9	83.3	100.0
1995	144.3	90.5	102.9	81.6	72.9	71.2	83.2	100.0
1996	146.9	91.9	105.0	80.0	69.1	70.4	81.2	100.0
1997	149.1	96.0	105.2	77.6	67.3	69.1	77.9	100.0
1998	147.8	98.1	110.5	77.2	68.0	67.7	76.3	100.0
1999	151.1	93.7	114.9	77.7	66.3	64.1	74.5	100.0
2000	152.2	97.3	113.9	74.8	64.6	63.4	71.8	100.0
2001	158.5	94.1	105.6	73.7	64.9	66.2	70.7	100.0
2002	163.9	88.7	103.4	73.0	63.7	64.4	68.9	100.0
2003	161.1	92.4	107.6	71.6	64.0	65.3	68.0	100.0

Source: KSH.

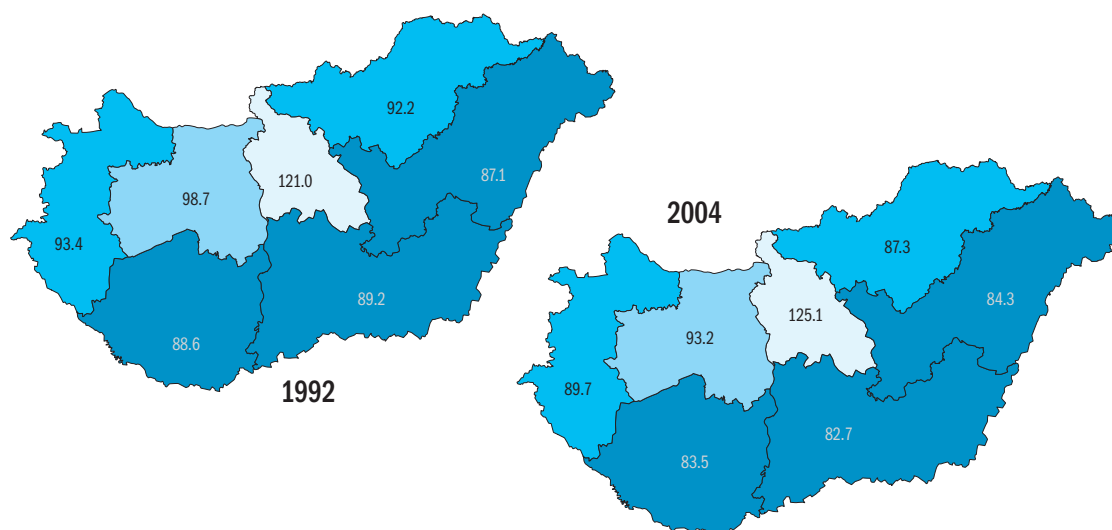


Figure 9.6: Regional inequalities: gross monthly earnings

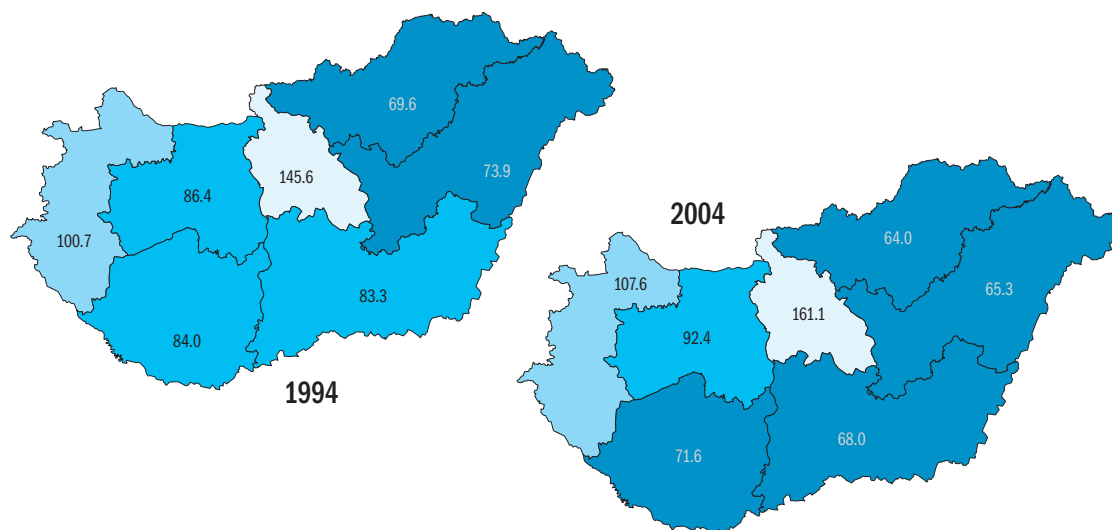


Figure 9.7: Regional inequalities: gross domestic product

**Table 10.1: Work permits issued to foreign citizens**

Year	Number of workpermits issued during the year	Number of work permits valid at the last day of the year
1989	25,259	...
1990	51,946	...
1991	41,724	33,352
1992	24,621	15,727
1993	19,532	17,620
1994	24,756	20,090
1995	26,085	21,009
1996	20,296	18,763
1997	24,244	20,382
1998	26,310	22,466
1999	34,138	28,469
2000	40,203	35,014
2001	47,269	38,623
2002	49,779	42,700
2003	57,383	48,651
2004 <sup>a</sup>	64,695	55,136
Number of registration	14,253	10,711
Number of green card certificates	285	285

a After the accession of Hungary to the EU (01.05.2004.) there is no need to ask for work permits for the citizens ( and their family members) from the Czech Republic, Estonia, Poland, Latvia, Lithuania, Slovakia and Slovenia, but there is a reporting obligation of the employers for registration when they start to work. The reporting obligation doesn't refer to the employment of the citizens of the UK, Ireland, Sweden, Cyprus and Malta. The citizens of the other member states of EU-15 in case of certain conditions may obtain „green card” certificate which entitles them to undertake any job in Hungary without work permissions.

Source: NEO, based on the reports of the county Labour Centres.

**Table 10.2: Employees since 0–6 months**

	1997	1998	1999	2000	2001	2002	2003
Hungary	8.2	8.5	7.1	6.9	6.3	6.6	6.4

Source: MEF, IV. quarterly waves.

**Table 10.3: Employees living and working in the residence and daily commuters  
by main demographic indicators, 1980–2001; in thousands, per cent**

	1980			1990			2001		
	Total	Living and work- ing in the residence	Daily commut- ers	Total	Living and work- ing in the residence	Daily commut- ers	Total	Living and work- ing in the residence	Daily commut- ers
<b>Number of cases</b>									
<b>Gender</b>									
Male	2,865.8	2,037.1	828.7	2,512.9	1,768.8	744.1	2,003.0	1,309.7	693.2
Female	2,199.8	1,811.4	388.4	2,012.1	1,611.4	400.7	1,687.3	1,278.5	408.8
<b>Age groups</b>									
15–29	1,650.9	1,152.1	498.8	1,230.6	843.7	387.0	988.9	642.3	346.5
30–39	1,337.0	1,052.2	284.8	1,422.0	1,082.1	339.9	925.6	633.1	292.5
40–49	1,164.4	911.4	253.1	1,218.8	950.9	267.9	1,095.0	788.9	306.1
50–59	821.8	648.8	173.1	628.6	481.1	147.5	622.0	473.2	148.8
60+	91.5	84.0	7.5	24.9	22.4	2.5	58.9	50.7	8.1
<b>Educational level</b>									
Less than primary school	936.4	702.2	234.2	235.3	159.2	76.2	29.5	22.3	7.2
Primary school	1,791.6	1,338.7	452.8	1,509.2	1,094.1	415.2	723.0	487.8	235.2
Vocational school	854.3	584.4	269.9	1,103.0	755.7	347.4	1,064.4	671.3	393.1
Grammar school	1,071.2	867.3	203.8	1,122.5	897.3	225.2	1,197.6	878.8	318.8
University, college	412.2	355.8	56.4	554.8	474.0	80.9	675.8	528.1	147.7
Total	5,065.7	3,848.5	1,217.1	4,525.0	3,380.2	1,144.8	3,690.3	2,588.3	1,102.0
<b>Percentages</b>									
<b>Gender</b>									
Male	100.0	71.1	28.9	100.0	70.4	29.6	100.0	65.4	34.6
Female	100.0	82.3	17.7	100.0	80.0	20.0	100.0	75.8	24.2
<b>Age groups</b>									
15–29	100.0	69.8	30.2	100.0	68.6	31.4	100.0	65.0	35.0
30–39	100.0	78.7	21.3	100.0	76.1	23.9	100.0	68.4	31.6
40–49	100.0	78.3	21.7	100.0	78.0	22.0	100.0	72.0	28.0
50–59	100.0	78.9	21.1	100.0	76.5	23.5	100.0	76.1	23.9
60+	100.0	91.8	8.2	100.0	89.9	10.1	100.0	86.2	13.8
<b>Educational level</b>									
Less than primary school	100.0	75.0	25.0	100.0	67.6	32.4	100.0	75.6	24.4
Primary school	100.0	74.7	25.3	100.0	72.5	27.5	100.0	67.5	32.5
Vocational school	100.0	68.4	31.6	100.0	68.5	31.5	100.0	63.1	36.9
Grammar school	100.0	81.0	19.0	100.0	80.0	20.0	100.0	73.4	26.6
University, college	100.0	86.3	13.7	100.0	85.4	14.6	100.0	78.1	21.9
Total	100.0	76.0	24.0	100.0	74.7	25.3	100.0	70.1	29.9

Source: KSH Census.



Table 11.1: Minimum wage

Date	Monthly amount(HUF)	Average gross earnings = 100
1992. I. 1.	8,000	35.8
1993. II. 1.	9,000	33.1
1994. II. 1.	10,500	30.9
1995. III. 1.	12,200	31.4
1996. II. 1.	14,500	31.0
1997. I. 1.	17,000	29.7
1998. I. 1.	19,500	28.8
1999. I. 1.	22,500	29.1
2000. I. 1.	25,500	29.1
2001. I. 1.	40,000	38.6
2002. I. 1.	50,000	40.8
2003. I. 1.	50,000	36.4
2004. I. 1.	53,000	36.4
2005. I. 1.	57,000	34.2 <sup>a</sup>

<sup>a</sup> January-September monthly averages.

Note: As of September 2002, minimum wage earners do not pay personal income tax.  
(As a result of this measure, the net minimum wage increased by 15.9 per cent.)

Source: KSH.

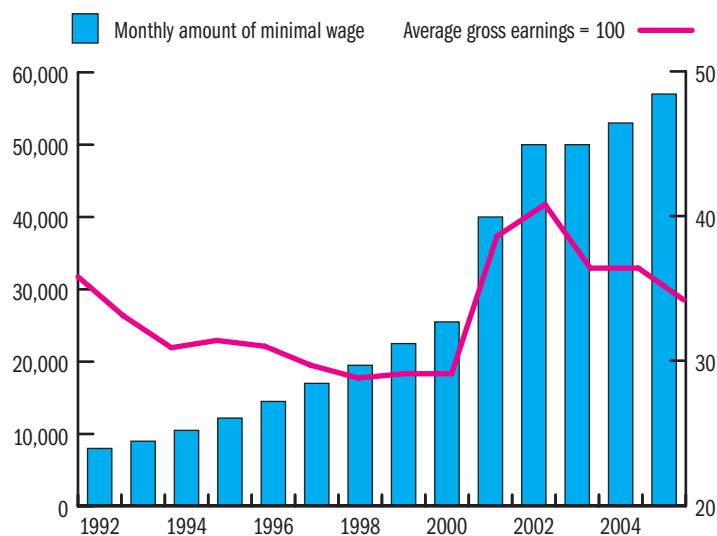


Figure 11.1: Minimum wage (Minimum wage, average gross earnings = 100)

Table 11.2: National agreements on wage guidelines (previous year = 100)\*

Year	ÉT Recommendation		Actual indexes	
	Minimum	Maximum	Public sector	Corporate sector
1992	113.0	128.0	120.1	126.6
1993	110.0-113.0	125.0	114.4	125.1
1994	113.0-115.0	121.0-123.0	127.0	123.4
1995	-	-	110.7	119.7
1996	113.0	124.0	114.6	123.2
1997	114.0	122.0	123.2	121.8
1998	113.5	116.0	118.0	118.5
1999	112.0	115.0	119.2	114.8
2000	108.5	111.0	112.3	114.2
2001	...	...	122.9	116.3
2002	108.0	110.5	129.2	113.3
2003	real wage growth by 4.5 %		117.5	108.9
2004	107.0	108.0	100.7	109.3
2005	106.0			

\* Gross average wage increase: actual rates and recommendations by the Interest Reconciliation Council.

Source: Central Statistical Office , Ministry of Employment and Labour.

Table 11.3: Single employer collective agreements in the business sector, 1998–2004

Sector	1998	1999	2000	2001	2002	2003	2004
<b>Number of collective agreements</b>							
Agriculture, fishery	57	61	60	58	58	61	64
Mining and quarrying	15	15	16	15	12	14	15
Manufacturing total	485	517	545	532	511	504	507
Of this: Food, beverage, tobacco	117	121	125	120	117	117	121
Textile, wearing apparel, leather	59	69	66	63	58	55	51
Wood, paper, printing	37	41	41	40	36	36	37
Coke, oil, chemical rubber	51	50	53	53	53	55	58
Other non-metallic mineral	25	29	32	32	29	30	32
Basic metal products	51	57	64	62	63	61	62
Machinery, equipment	126	132	145	143	138	133	129
Other manufacturing	19	18	19	19	17	17	17
Electricity, water supply	91	106	112	111	103	102	104
Industry total	591	638	673	658	626	620	626
Construction	45	51	55	54	53	49	50
Trade, repairing	257	259	261	252	229	229	233
Hotels and restaurants	25	28	27	23	22	23	21
Transport, storage and communication	81	84	85	85	87	90	96
Financial intermediation	22	27	32	30	30	31	31
Real estate, renting	75	84	89	95	99	94	98
Education	8	10	9	10	8	8	7
Health and social care	5	7	8	8	8	9	10
Other services	52	54	59	60	57	58	59
Grand Total	1 218	1 303	1 358	1 333	1 277	1 272	1 295
<b>Number of persons covered (thou)</b>							
Agriculture, fishery	27.5	27.9	26.3	25.4	24.3	23.4	21.8
Mining	8.2	7.8	7.2	3.6	3.2	3.5	3.8
Manufacturing total	292.2	287.4	288.7	277.8	259.9	251.6	245.4
Of this: Food, beverage, tobacco	68.4	64.4	64.7	61.3	56.5	54.0	55.1
Textile, wearing apparel, leather	39.5	43.6	39.9	37.4	33.6	30.6	29.5
Wood, paper, printing	11.1	12.5	12.2	10.3	9.8	9.7	9.9
Coke, oil, chemical rubber	56.4	51.0	50.6	48.2	44.3	42.2	38.5
Other non-metallic mineral	13.7	16.2	14.7	15.5	13.6	13.0	13.4
Basic metal products	29.2	27.9	30.1	29.0	28.1	25.5	22.2
Machinery, equipment	67.5	66.4	71.4	70.6	69.0	71.7	72.0
Other manufacturing	6.3	5.4	5.1	5.7	4.9	4.9	4.9
Electricity, water supply	69.1	71.5	69.4	64.8	57.3	56.0	52.6
Industry total	369.6	366.8	365.2	346.2	320.4	311.2	301.9
Construction	13.1	15.0	14.2	13.2	11.8	9.1	8.7
Trade, repairing	62.3	68.7	60.5	59.8	53.6	56.2	56.5
Hotels and restaurants	12.2	10.1	8.4	7.3	7.5	8.9	9.7
Transport, storage and communication	180.5	177.7	174.7	173.3	175.4	171.0	168.6
Financial intermediation	31.9	39.4	39.1	32.0	32.2	31.5	26.5
Real estate, renting	16.8	17.9	18.6	18.4	20.2	18.8	23.8
Education	0.7	0.8	0.7	0.8	0.7	0.6	0.4
Health and social care	0.3	0.5	1.4	1.4	1.3	1.7	2.5
Other services	19.6	18.6	21.0	20.4	20.1	17.4	17.2
Grand Total	734.5	743.3	730.1	698.3	667.6	649.9	637.5

Source: Ministry of Employment and Labour, Registry of collective agreements.

**Table 11.4: Collective agreements concluded by employers' organisations, in effect in August 2005**

	Employers' organisation	Trade union(s)	Date of first agreement	Date of last amendment	Number of companies covered <sup>1</sup>	Number of employees covered <sup>1</sup>	Date of first extension
1.	KISZÖV Industrial Association of county Hajdú-Bihar	Regional Trade Union Committee of Industrial Cooperatives of county Hajdú-Bihar	9/25/1997	5/1/2004	16	1,525	-
2.	Board of Directors of the Sugar Industry Association	ÉDOSZ Trade Union of Sugar Industry Workers	1/1/1998	1/1/2002	6	1,843	-
3.	Association of Electricity Companies	Alliance of Trade Unions of Mining and Energy Industrial Workers; Alliance of Trade Unions of Electricity Industry Workers	11/7/1995	2/8/2000	11	27,262	12/20/1995
4.	Professional Association of Metallurgical Companies	Alliance of Metallurgical Trade Unions	1/1/1996	1/1/2001	21	1,042	-
5.	National Professional Alliance of Furniture Makers	EFEDOSZSZ Trade Union of Timber and Furniture Industry Workers	2/1/1998	11/23/1999	27	4,028	-
6.	Hungarian Industrial Association	Alliance of Autonomous Trade Unions	3/1/1998	3/1/2003	n.a.	n.a.	-
7.	National Association of Agricultural Cooperatives and Producers	Agricultural, Forestry and Water Management Workers' Trade Union Association	8/12/2003	9/15/2003	882	48,250	-
8.	National Alliance of Water Management Associations	Agricultural, Forestry and Water Management Workers' Trade Union Association	8/11/1992	5/27/2000	16	725	-
9.	Bakers' Professional Section of the National Association of Food Processors	Trade Union of Baking Industrial Workers	12/22/1997	1/7/2003	32	19,420	12/20/1995
10.	Hungarian Pharmaceutical Manufacturers Association	VDSZ Pharmaceutical Trade Union Alliance	4/23/1998	11/1/2001	6	10,300	-
11.	Hungarian Cement Association	ÉFÉDOSZSZ Cement Trade Union Section	2/29/1996	3/15/1999	5	2,269	-
12.	Hungarian Road Transport Association	National Trade Union of International Drivers	12/3/2002	1/1/2004	45	1,616	-
13.	Hungarian Water Utility Association	Trade Union of Water Utility Workers	2/27/1997	6/25/2002	16	23,563	-
14.	Hungarian Chemical Association	Association of Trade Union of Chemical Workers	8/12/1993	1/1/2001	27	9,081	-
15.	Association of Public Road Transport Enterprises	Public Road Transport Trade Union; Union of Employees of Bus Transport	6/1/1992	7/1/2003	46	25,219	-
16.	Hungarian Light Industrial Association	Trade Union of Leather Industrial Workers	7/1/1992	5/30/2001	8	2,693	-
17.	National Association of Tourism Employers	Trade Union of Employees of Restaurants and Tourism	5/21/1997	5/21/1997	34	15,024	4/18/2001

<sup>1</sup> Data submitted at first registration.

Source: Ministry of Employment and Labour, Registry of collective agreements.

Table 11.5: Single institution collective agreements in the public sector, 1998–2004

Sector	1998	1999	2000	2001	2002	2003	2004
<b>Number of agreements</b>							
Accommodation	1	1	1	1	1	1	1
R&D	20	20	21	21	22	23	23
Public administration, social security	133	135	130	125	113	105	100
Education total	1 525	1 565	1 566	1 567	1 523	1 531	1 519
Of this: prim. and sec. ed.	1 472	1 513	1 512	1 523	1 484	1 492	1 480
Higher ed.	42	41	43	32	29	28	28
Health and social care total	241	255	259	261	256	259	264
Of this: Human health care	118	125	127	125	123	126	127
Social care	121	128	131	135	132	132	136
Other community social services total	66	73	73	72	77	79	86
Entertainment	25	29	28	28	30	30	35
Libraries, archives	33	36	37	37	40	42	41
Sports and other	8	8	7	7	6	6	8
Other activities total	29	35	29	30			
Grand total	2,015	2,084	2,079	2,077	2,019	2,026	2,020
<b>Number of persons covered (thou)</b>							
Hotels	0.1	0.1	0.1	0.1	0.1	0.1	0.1
R&D	2.5	2.4	2.6	2.6	2.6	2.7	2.7
Public administration, social security	26.4	26.9	26.7	24.1	22.0	21.1	20.8
Education total	117.9	119.9	120.8	122.0	116.2	117.9	117.0
Of this: prim and sec education	77.2	79.3	79.3	80.7	79.9	81.1	81.1
Higher education	40.3	40.2	41.2	40.7	35.9	36.3	35.5
Health and social care total	102.1	110.6	110.8	108.2	99.9	101.2	101.6
Of this: Human health care	89.8	97.1	97.0	94.2	86.0	86.8	86.8
Social care	12.2	13.3	13.7	13.9	13.8	14.3	14.7
Other community social services total	6.5	6.4	7.0	7.1	7.1	7.0	6.8
Entertainment	2.6	3.0	3.0	3.0	2.9	2.9	3.2
Libraries, archives	3.4	2.9	3.6	3.7	3.9	3.7	3.2
Sports and other	0.5	0.5	0.3	0.4	0.3	0.3	0.3
Other activities total	1.3	8.1	4.1	4.1	0.0	0.0	0.0
Grand total	256.8	274.3	272.1	268.1	251.8	251.4	250.5

Source: Ministry of Employment and Labour, Registry of collective agreements.

Table 11.6: Multi employer collective agreements in the business sector, 1998–2004

Sector	1998	1999	2000	2001	2002	2003	2004
<b>Number of collective agreements</b>							
Agriculture, fishery	1	1	3	2	3	2	2
Mining		1	1	1	1		
Manufacturing	28	34	33	34	32	32	37
Electricity	3	4	3	3	4	4	5
Construction	1	3	4	3	3	7	7
Trade, repairing	3	3	9	9	8	8	7
Hotels and restaurants	1	3	4	4	4	4	4
Transport, storage	3	3	4	4	4	4	4
Real estate, renting			3	3	3	4	6
Health and social care							1
Other community, personal		6	5	4	6	6	
Grand total	40	52	70	68	66	71	79
<b>Number of persons covered (thou)</b>							
Agriculture, fishery	0.5	0.5	1.2	1.0	1.2	0.6	0.6
Mining	0.0	0.3	0.3	0.3	0.3	0.0	0.0
Manufacturing	224.7	224.3	93.8	92.4	86.8	85.2	82.7
Electricity	62.7	63.1	20.1	20.1	22.2	26.6	27.3
Construction	0.6	1.9	3.8	3.5	3.5	8.7	8.0
Trade, repairing	0.7	0.7	2.7	2.7	2.0	1.0	0.6
Hotels, restaurants	0.3	20.0	20.3	19.6	19.3	19.1	19.1
Transport, storage	27.4	27.6	28.3	28.3	28.5	28.5	28.5
Real estate, renting	0.0	0.0	14.1	13.4	12.9	12.9	16.7
Health and social care	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Other community, personal	0.0	0.0	62.0	32.2	30.0	79.2	79.7
Grand total	317.0	338.4	246.7	213.4	206.7	261.8	263.8

Source: Ministry of Employment and Labour, Registry of collective agreements.

Table 11.7: Number of multi institution collective agreements in the public sector, 1998–2004

Sector	1998	1999	2000	2001	2002	2003	2004
<b>Number of agreements</b>							
R&D	1	1	1	1	1	1	1
Public administration, social security	1	2	2	1	1	1	1
Education total	3	6	6	7	6	6	6
Prim and sec education		6	6	7	6	6	6
Health and social care total		2	2	1	1	1	1
Social care	1	2	2	1	1	1	1
Other community social services total			1				1
Entertainment			1				1
Other activities total	1						
Grand total	7	11	12	10	9	9	10
<b>Number of persons covered (thou)</b>							
R&D	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Public administration, social security	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Education total	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Prim and sec education	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Health and social care total	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Social care	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other community social services total	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Entertainment	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Other activities total	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Grand total	2.5	2.2	2.4	2.1	2.0	2.0	2.1

Source: Ministry of Employment and Labour, Registry of collective agreements.



**Table 11.8: Shares of employees covered by collective agreements  
by type and by sector, after extension, 2001, per cent**

Sector	Single employer	Multi- employer	Concluded by an employ- ers' organi- sation	Agreements total	After extension	Total (with extension)
Agriculture, fishery	20.7	0.9	0.0	21.0	0.0	21.0
Mining	54.2	3.8	0.0	58.1	0.0	58.1
Manufacturing total	34.2	5.1	8.6	39.6	0.5	40.1
Of this: Food, beverage, tobacco	44.6	7.9	17.7	60.9	3.0	64.0
Textile, wearing apparel, leather	28.1	8.3	4.0	32.5	0.0	32.5
Wood, paper, printing	17.9	4.1	3.5	21.7	0.0	21.7
Coke, oil, chemical rubber	59.7	4.7	25.5	61.0	0.0	61.0
Other non-metallic mineral	47.5	0.6	8.7	55.8	0.0	55.8
Basic metal products	30.9	7.2	9.2	32.8	0.0	32.8
Machinery, equipment	28.8	2.8	1.0	31.3	0.0	31.3
Other manufacturing	20.1	0.6	16.4	27.8	0.0	27.8
Electricity, water supply	80.1	1.5	41.5	86.4	3.6	90.0
Industry total	37.9	4.8	11.1	43.3	0.7	44.0
Construction	11.2	2.4	0.3	13.2	0.0	13.2
Trade, repairing	19.2	2.0	0.1	21.2	0.0	21.2
Hotels and restaurants	9.8	11.6	15.5	26.0	65.1	91.2
Transport, storage and communication	76.7	1.6	12.6	78.4	0.0	78.4
Of this: Transport and auxiliary activities	71.6	2.3	17.7	74.0	0.0	74.0
Post, telecommunication	89.3	0.0	0.0	89.3	0.0	89.3
Financial intermediation	60.9	0.0	0.0	60.9	0.0	60.9
Real estate, renting	16.5	6.6	5.5	16.7	0.0	16.7
Education	49.4	0.8	0.0	49.7	0.0	49.7
Health and social care	52.6	0.0	0.0	52.7	0.0	52.7
Other community social services	24.5	0.0	0.0	24.5	0.0	24.5
Grand total	37.2	3.1	5.9	40.2	2.3	42.5

Note: „Adjusted” coverage indices (excluding public administration and compulsory social security).

Source: Ministry of Employment and Labour, Registry of collective agreements.

**Table 11.9: Shares of employees covered by collective agreements  
by type and by sector, after extension, 2002, per cent**

Sector	Single employer	Multi- employer	Concluded by an employ- ers' organi- sation	Agreements total	After extension	Total (with extension)
Agriculture, fishery	21.6	1.5	0.0	22.5	0.0	22.5
Mining	45.7	4.0	0.0	49.7	0.0	49.7
Manufacturing total	33.2	5.3	8.5	38.9	0.9	39.8
Of this: Food, beverage, tobacco	43.2	7.5	16.8	58.0	5.1	63.1
Textile, clothing, leather	29.5	7.1	4.1	33.3	0.0	33.3
Wood, paper, printing	16.7	4.0	3.5	20.3	0.0	20.3
Coke, oil, chemical rubber	54.4	4.4	25.9	55.9	0.0	55.9
Other non-metallic mineral	42.5	0.7	9.4	48.7	0.0	48.7
Basic metal products	31.7	7.8	9.1	33.7	0.0	33.7
Machinery, equipment	28.5	4.2	0.7	32.8	0.0	32.8
Other manufacturing	17.1	0.5	15.1	24.2	0.0	24.2
Electricity, water supply	79.3	4.1	40.7	85.4	4.8	90.2
Industry total	36.9	5.2	10.9	42.5	1.2	43.7
Construction	9.9	2.4	0.2	11.9	0.0	11.9
Trade, repairing	16.8	2.0	0.1	18.8	0.0	18.8
Hotels and restaurants	9.7	5.3	12.7	22.1	68.4	90.5
Transport, storage and communication	76.2	1.5	12.6	77.1	0.0	77.1
Of this: Transport and auxiliary activities	70.7	2.2	17.6	71.9	0.0	71.9
Post, telecommunication	89.8	0.0	0.0	89.8	0.0	89.8
Financial intermediation	59.5	0.0	0.0	59.5	0.0	59.5
Real estate, renting	13.3	2.3	0.6	13.6	0.0	13.6
Education	46.7	0.7	0.0	46.9	0.0	46.9
Health and social care	47.0	0.0	0.0	47.0	0.0	47.0
Other social community services	23.8	0.0	0.0	24.0	0.0	24.0
Grand total	35.5	2.7	5.3	38.3	2.6	40.9

Note: „Adjusted” coverage indices (excluding public administration and compulsory social security).

Source: Ministry of Employment and Labour, Registry of collective agreements.

**Table 11.10: Shares of employees covered by collective agreements  
by type and by sector, after extension, 2003, per cent**

Sector	Single employer	Multi- employer	Concluded by an employ- ers' organi- sation	Agreements total	After extension	Total (with extension)
Agriculture, fishery	21.7	1.1	46.0	68.7	0.0	68.7
Mining	49.0	3.7	0.2	52.9	0.0	52.9
Manufacturing total	33.2	5.2	7.9	38.5	0.8	39.4
Of this: Food, beverage, tobacco	40.9	7.9	16.8	56.7	4.7	61.4
Textile, clothing, leather	31.5	7.9	3.0	34.3	0.0	34.3
Wood, paper, printing	14.6	3.6	0.3	18.0	0.0	18.0
Coke, oil, chemical rubber	53.2	7.2	24.7	56.5	0.0	56.5
Other non-metallic mineral	43.6	1.4	9.0	50.5	0.0	50.5
Basic metal products	29.4	7.4	8.6	30.6	0.0	30.6
Machinery, equipment	30.0	2.8	0.7	33.0	0.0	33.0
Other manufacturing	18.4	0.6	16.5	26.2	0.0	26.2
Electricity, water supply	88.2	4.2	75.8	94.5	5.5	100.0
Industry total	37.5	5.1	13.1	44.4	1.2	45.5
Construction	7.4	5.8	0.2	12.7	0.0	12.7
Trade, repairing	17.9	0.5	0.1	18.4	0.0	18.4
Hotels and restaurants	6.3	0.1	15.9	30.2	55.7	85.9
Transport, storage and communication	74.6	1.6	13.1	77.0	0.0	77.0
Of this: Transport and auxiliary activities	70.3	2.2	18.1	73.7	0.0	73.7
Post, telecommunication	85.8	0.0	0.0	85.8	0.0	85.8
Financial intermediation	58.7	0.0	0.0	58.7	0.0	58.7
Real estate, renting	12.5	2.3	0.5	13.2	0.0	13.2
Education	48.1	0.7	0.0	48.3	0.0	48.3
Health and social care	53.6	0.0	0.0	53.6	0.0	53.6
Other social community services	25.7	0.0	1.8	25.7	0.0	25.7
Grand total	36.0	2.6	8.3	41.7	1.9	43.5

Note: „Adjusted” coverage indices (excluding public administration and compulsory social security).

Source: Ministry of Employment and Labour, Registry of Collective Agreements.

**Table 11.11: Shares of employees covered by collective agreements  
by type and by sector, after extension, 2004, per cent**

Sector	Single employer	Multi- employer	Concluded by an employ- ers' organi- sation	Agreements total	After extension	Total (with extension)
Agriculture, fishery	20.7	1.2	47.7	69.5	0.0	69.5
Mining	48.8	7.8	0.2	56.7	0.0	56.7
Manufacturing total	33.2	5.2	7.8	38.6	0.8	39.4
Of this: Food, beverage, tobacco	45.9	9.0	18.2	64.3	5.0	69.3
Textile, clothing, leather	33.3	8.2	3.9	37.0	0.0	37.0
Wood, paper, printing	14.9	3.7	0.4	18.3	0.0	18.3
Coke, oil, chemical rubber	48.9	5.5	23.6	51.4	0.0	51.4
Other non-metallic mineral	45.8	1.4	8.4	52.3	0.0	52.3
Basic metal products	27.0	7.2	8.2	27.2	0.0	27.2
Machinery, equipment	29.0	2.8	0.3	31.6	0.0	31.6
Other manufacturing	19.7	0.6	16.7	28.4	0.0	28.4
Electricity, water supply	87.4	6.4	76.6	95.3	4.7	100.0
Industry total	37.4	5.3	12.9	44.4	1.1	45.5
Construction	6.7	7.0	0.2	13.2	0.0	13.2
Trade, repairing	16.8	0.8	0.1	17.3	0.0	17.3
Hotels and restaurants	4.8	0.0	12.1	24.0	58.3	82.3
Transport, storage and communication	73.2	1.3	13.0	74.4	0.0	74.4
Of this: Transport and auxiliary activities	69.1	1.8	17.8	70.7	0.0	70.7
Post, telecommunication	84.4	0.0	0.0	84.4	0.0	84.4
Financial intermediation	48.9	0.0	0.0	48.9	0.0	48.9
Real estate, renting	13.4	3.9	2.2	14.1	0.0	14.1
Education	45.9	0.7	0.0	46.2	0.0	46.2
Health and social care	45.7	0.3	0.0	46.0	0.0	46.0
Other social community services	23.7	0.1	1.5	23.7	0.0	23.7
Grand total	34.0	2.7	7.9	39.5	2.3	41.8

Note: „Adjusted” coverage indices (excluding public administration and compulsory social security).

Table 11.12: The number of company wage agreements and the number of employees covered, 1998–2004

Sector	1998	1999	2000	2001	2002	2003	2004
<b>Number of companies</b>							
Agriculture, fishery	36	37	23	18	25	25	24
Mining	10	11	9	8	7	9	8
Manufacturing total	327	358	219	203	224	210	182
Of this: Food, beverage, tobacco	83	89	44	41	55	44	47
Textile, clothing, leather	39	44	25	25	25	23	13
Wood, paper, printing	21	25	13	13	14	17	15
Coke, oil, chemical rubber	38	37	26	23	26	35	30
Other non-metallic mineral	17	18	16	19	13	12	14
Basic metal products	39	44	32	34	33	26	25
Machinery, equipment	76	87	58	45	51	46	32
Other manufacturing	14	14	5	3	7	7	6
Electricity, water supply	68	77	74	48	60	63	59
Industry total	405	446	302	259	291	282	249
Construction	31	33	24	23	24	18	16
Trade, repairing	141	143	84	73	60	80	79
Hotels and restaurants	12	15	9	7	12	11	9
Transport, post, storage and communication	54	58	49	33	48	51	56
Financial intermediation	12	13	16	7	11	11	10
Real estate, renting	47	49	40	34	38	37	43
Education	4	5	2	1	2	3	1
Health and social care	3	3	2	1	4	3	5
Other social community services	23	25	21	15	16	24	23
Grand total	768	827	572	471	531	545	515
<b>Number of persons covered (thou)</b>							
Agriculture, fishery	19.1	18.5	9.2	5.9	9.2	6.8	7.2
Mining	4.5	5.4	2.3	1.9	1.3	1.6	1.7
Manufacturing total	233.4	225.5	113.0	116.8	133.1	112.7	94.5
Of this: Food, beverage, tobacco	50.1	48.7	21.4	23.2	29.0	20.5	20.6
Textile, clothing, leather	24.4	28.6	16.4	12.4	16.1	13.0	8.7
Wood, paper, printing	5.9	6.7	4.1	3.6	4.8	4.3	4.7
Coke, oil, chemical rubber	53.6	47.7	26.6	19.6	23.9	33.1	27.4
Other non-metallic mineral	10.8	11.9	7.8	10.0	7.4	7.1	5.9
Basic metal products	24.9	24.2	14.3	16.1	15.5	12.3	8.5
Machinery, equipment	58.6	53.4	20.2	31.1	35.1	19.9	17.3
Other manufacturing	5.1	4.3	2.3	0.7	1.3	2.5	1.3
Electricity, water supply	62.8	65.5	47.5	27.7	34.0	35.2	32.6
Industry total	300.7	296.3	162.8	146.5	168.4	149.4	128.8
Construction	11.3	11.1	5.9	5.2	4.9	3.1	2.0
Trade, repairing	41.7	43.9	17.9	26.8	21.5	24.2	21.3
Hotels and restaurants	7.1	8.4	2.6	1.7	2.2	4.3	2.8
Transport, post, storage and communication	169.7	168.9	102.6	49.0	47.0	106.2	144.9
Financial intermediation	17.0	22.8	17.0	8.1	8.1	5.5	15.1
Real estate, renting	8.6	9.1	7.7	7.7	9.0	7.2	13.7
Education	0.4	0.5	0.1	0.0	0.1	0.3	0.0
Health and social care	0.2	0.2	0.9	0.3	1.1	1.1	1.7
Other social community services	6.9	7.8	7.6	7.8	8.1	8.5	9.7
Grand total	582.8	587.5	334.1	259.0	279.8	316.6	347.2

Source: Registry of collective agreements.

**Table 11.13: The number of multi-employer wage agreements, and the number of covered companies and employees, 1998–2004**

Sector	1998		1999		2000		2001		2002		2003		2004	
	Agree- ments	Com- pa- nies	Agree- ments	Com- pa- nies	Agree- ments	Com- pa- nies	Agree- ments	Com- pa- nies	Agree- ments	Com- pa- nies	Agree- ments	Com- pa- nies	Agree- ments	Com- pa- nies
Number of companies														
Agriculture, fishery	1	5	1	5	1	2			1	2	1	4	1	3
Mining			1	2										
Manufacturing	23	2899	27	3031	7	46	9	96	4	64	5	59	6	12
Electricity	3	110	3	110					2	10	2	26	2	9
Construction			3	7	1	2			1	2	4	31	2	10
Trade, repairing	1	2	1	3	4	10	3	7	3	7	3	8	2	4
Hotels and restaurants	1	3	3	46	3	42	3	10	2	10	3	10		
Transport, storage	2	29	2	27	2	28			1	28	2	51		
Real estate, renting					2	33	3	36	3	33	1	9	3	43
Health and social care													1	3
Other community, personal					3	48	1	32	1	16	1	45	2	61
Grand total	31	3048	41	3231	23	211	19	181	18	172	22	243	19	145
Number of persons covered (thou)														
Agriculture, fishery	0.5		0.5		0.3		0.0		0.3		0.2		0.2	
Mining	0.0		0.3		0.0		0.0		0.0		0.0		0.0	
Manufacturing	214.0		215.7		12.1		49.3		28.7		27.1		4.0	
Electricity	62.7		62.7		0.0		0.0		2.4		25.5		2.6	
Construction	0.0		1.9		0.7		0.0		0.6		5.2		2.1	
Trade, repairing	0.1		0.1		1.0		0.6		0.3		0.2		0.1	
Hotels and restaurants	0.3		20.0		15.7		4.6		4.0		4.0		0.0	
Transport, storage	27.4		27.5		25.7		0.0		25.3		25.3		0.0	
Real estate, renting	0.0		0.0		11.8		13.4		12.9		0.2		12.5	
Health and social care	0.0		0.0		0.0		0.0		0.0		0.0		0.6	
Other community, personal	0.0		0.0		58.1		1.0		1.7		1.0		3.1	
Grand total	305.0		328.8		125.3		68.9		76.1		88.9		25.2	

Source: Ministry of Employment and Labour, Registry of collective agreements.

**Table 11.14: Industry and company-level wage agreements**

Year	Industry level		Company level	
	Number	Employees covered (thou)	Number	Employees covered (thou)
1992	24	874.5	391	567.0
1993	12	232.1	394	592.4
1994	12	207.6	490	555.6
1995	7	88.0	816	490.9
1996	12	201.0	594	512.7
1997	12	210.0	598	488.3

Note: Registered wage agreements.

Source: Ministry of Employment and Labour.

Table 11.15: Number and share of company wage agreements by sector in the business sector, 2004

Sector	Companies with wage agreement		Covered employees		Share (%)
	number of companies	share (%)	number of individuals	share (%)	
Agriculture, forestry	141	20,5	19,489	33,8	4,2
Fishery	5	23,8	292	41,8	0,1
Mining and quarrying of energy producing materials	7	36,8	1,230	80,9	0,3
Mining of other minerals	8	19,1	1,095	45,6	0,2
Mining, quarrying	15	24,6	2,325	59,3	0,5
Food, beverage and tobacco production	117	28,4	43,362	56,0	9,4
Production of textile	49	15,3	12,729	29,7	2,8
Production of leather products and footwear	15	18,3	2,804	30,0	0,6
Manufacture of wood	14	12,3	1,712	19,5	0,4
Paper manufacturing, publishing and printing activities	50	23,2	6,302	35,6	1,4
Manufacturing of coke, refined petroleum, nuclear fuel	3	100,0	6,965	100,0	1,5
Manufacturing of chemicals	29	29,3	10,224	36,1	2,2
Manufacturing of rubber and plastic products	28	13,8	6,243	27,7	1,4
Manufacturing of other non-metallic mineral products	28	26,7	9,548	55,1	2,1
Manufacturing of basic metal and fabricated metal products	75	16,3	20,202	39,7	4,4
Manufacturing of machinery and equipment	39	16,1	10,452	32,0	2,3
Manufacturing of electrical machinery and apparatus	55	17,2	18,270	24,9	4,0
Manufacturing of transport equipment	27	22,7	11,055	29,7	2,4
Manufacturing not in any of the categories	22	13,4	1,402	12,2	0,3
Manufacturing	551	19,3	161,270	36,9	34,9
Electricity, gas and hot water supply	101	40,4	36,860	75,0	8,0
Construction	96	10,6	10,455	22,8	2,3
Trade, repairing	244	10,3	32,392	25,4	7,0
Hotels and restaurants	56	15,5	10,550	43,4	2,3
Transport, storage	89	18,4	140,356	82,5	30,4
Financial intermediation	39	16,0	10,489	25,7	2,3
Real estate, renting	126	13,0	15,374	22,6	3,3
Education	26	9,3	1,444	13,5	0,3
Health and social care	27	13,3	1,842	17,0	0,4
Other community personal services	86	19,8	17,086	51,5	3,7
Extra-territorial organisations	3	37,5	1,560	48,3	0,3
Total	1,605	15,8	461,784	42,6	100,0

Source: National Employment Office, company data of the individual wage tariff survey. See methodological notes in the chapter on collective agreements.



**Table 11.16: Number and share of company wage agreements in the business sector by categories of employment size, 2004**

Categories of employment size	Companies with wage agreement		Covered employees		Share (%)
	Number of companies	share (%)	Number of individuals	share (%)	
-49	558	9.4	10,043	10.6	2.2
50-299	741	20.9	95,775	24.3	20.7
300-999	235	46.7	122,067	47.8	26.4
1000+	71	54.2	233,899	68.9	50.7
Total	1,605	15.8	461,784	42.6	100.0

Source: National Employment Office, company data of the individual wage tariff survey.  
See methodological notes in the chapter on collective agreements.

**Table 11.17: Number and share of company wage agreements in the business sector by ownership share, 2004**

Ownership share	Companies with wage agreement		Covered employees		Share (%)
	Number of companies	share (%)	Number of individuals	share (%)	
100 % Hungarian ownership of this: fully in state and local government ownership	1,254	15.0	309,347	44.6	67.0
Hungarian majority ownership	191	34.1	154,009	81.7	33.4
Hungarian majority ownership	55	24.7	22,597	47.5	4.9
Foreign majority ownership	90	19.6	58,050	55.3	12.6
100 % foreign ownership	206	18.4	71,790	30.4	15.6
Total	1,605	15.8	461,784	42.6	100.0

Source: National Employment Office, company data of the individual wage tariff survey.  
See methodological notes in the chapter on collective agreements.

**Table 11.18: The content of single employer wage agreements registered in 2004**

Sector	Raise of base wage			Increase of average earning			Minimum wage		
	Number of companies	Coverage (number of employees)	Annual percentage	Number of companies	Coverage (number of employees)	Annual percentage	Number of companies	Coverage (number of employees)	Wage (HUF/month)
Agriculture, fishery	14	4,349	6.6	11	4,118	8.0	14	4,465	53,321
Mining	8	1,676	7.1	2	845	7.5	5	1,239	52,400
Manufacturing total	111	70,643	5.2	62	43,454	7.5	76	52,060	55,356
Of this: Food, beverage, tobacco	24	14,640	4.3	19	11,211	6.5	20	8,974	53,234
Textile, clothing, leather	7	5,113	3.9	5	4,635	6.3	3	4,284	53,000
Wood, paper, printing	7	2,568	4.5	3	1,734	9.1	4	1,516	53,000
Coke, oil, chemical rubber	26	26,555	6.0	11	11,207	9.8	19	22,505	57,474
Other non-metallic mineral	8	2,573	7.0	4	1,313	8.0	4	1,613	53,000
Basic metal products	15	6,491	4.8	7	4,150	5.7	9	5,069	57,509
Machinery, equipment	21	12,006	4.9	12	8,790	5.8	14	7,594	55,114
Other manufacturing	3	697	8.0	1	114	9.0	3	505	55,633
Electricity, water supply	48	26,288	8.1	31	14,283	8.4	29	16,146	54,774
Industry total	167	98,607	6.0	95	58,582	7.7	110	69,445	55,051
Construction	11	1,382	5.4	7	482	7.1	9	1,174	53,696
Trade, repairing	36	12,971	5.1	26	5,061	13.0	34	5,999	53,037
Hotels and restaurants	2	593	6.0	2	593	3.5	2	593	53,000
Transport, storage and communication	37	132,930	7.3	28	118,238	9.4	21	82,950	54,650
Of this: Transport and auxiliary activities	33	82,754	7.9	24	68,090	11.0	20	74,871	53,579
Post, telecommunication	4	50,176	6.2	4	50,148	7.6	1	8,079	75,000
Financial intermediation	6	6,068	9.1	4	3,484	6.7	3	5,876	68,333
Real estate, renting	25	8,941	15.0	17	4,303	7.8	10	2,514	55,850
Education	1	23	10.0	1	23	10.0	1	23	53,000
Health and social care	2	370	7.8	2	370	7.8	1	265	54,000
Other social community services	12	6,684	5.7	8	2,250	7.3	5	4,448	68,667
Grand total	313	272,918	7.0	201	197,504	8.7	210	177,752	54,996

Source: Ministry of Employment and Labour, Registry of collective agreements.

**Table 11.19: Gross average earning in the business sector by category of employment size, 2004**

Categories of employment size	Average earning of employees covered by a company wage agreement	Average earning of employees not covered by a company wage agreement	Ratio of employees covered by a company wage agreement to uncovered employees
	HUF/person, month	HUF/person, month	%
-49	114,338	103,176	110.8
50-299	148,106	142,398	104.0
300-999	163,821	156,024	105.0
1000+	170,486	192,020	88.8

Source: Ministry of Employment and Labour, Registry of collective agreements.

**Table 11.20: Sectoral Dialogue Committees and the Social Partners**

Sector	Employers' side	Employees' side
1. Agricultural Sectoral Dialogue Committee	National Federation of Agricultural Cooperatives and Producers	Agricultural, Forestry and Water Management Workers' Trade Union
1.1. Agricultural and Water Management Sub-Sectoral Dialogue Committee	National Alliance of Water Management Associations	Agricultural, Forestry and Water Management Workers' Trade Union
2. Sectoral Dialogue Committee in Mining	Hungarian Mining Association	Trade Union of Mine and Energy Workers; Miners' Trade Union of MOL
3. Sectoral Committee in the Food Industry	The Federation of Hungarian Food Industries	Alliance of Trade Unions of Food Industry Employees
3.1. Meat Industry Sub-Sectoral Dialogue Committee	Association of Hungarian Meat Industries	Trade Union of Meat Industry Employees
3.2. Canning Sub-Sectoral Dialogue Committee	Hungarian Canning Industrial Association	Trade Union of Canning Industry Employees
3.3. Bakery Sub-Sectoral Dialogue Committee	Hungarian Bakers' Association; National Association of Entrepreneurs and Employers; National Federation of Craftsmen Boards	Trade Union of Bakery Employees
3.4. Sugar Industrial Sub-Sectoral Dialogue Committee	Sugar Industrial Association	Sugar Industrial Section of Alliance of Trade Unions of Food Industry Employees
4. Light Industrial Sectoral Dialogue Committee	Hungarian Association of Light Industry; Association of Hungarian Dressmakers; Leather and Shoes Industrial Federation; Association of Hungarian Shoemakers, Textile and Clothing Section of VOSZ ; Leather, Clothing and Textile Industry Section of IPOSZ	Trade Union of Leather Workers; Trade Union of Workers in the Clothing Industry; Trade Union of Textile Industry Workers; Trade Union of Employees of Local Industry and Municipal Finances (HVD SZ 2000); The Textile and Clothing Branch of Works Councils
5. Chemical Sectoral Dialogue Committee	Hungarian Chemical Industry Association; Association of Hungarian Rubber Industry; Hungarian Pharmaceutical Manufacturers Association; Association of Hungarian Aluminium Producers	Federation of Trade Unions of the Chemical, Energy and Allied Workers; MOL Chemical Trade Union; Sub-Branch Association of Chemical Trade Unions; Association of Chemical Trade Unions; Association of Rubber Industry Trade Unions; Association of Aluminium Industrial Trade Unions
6. Metallurgical Sectoral Dialogue Committee	Association of the Hungarian Steel Industry; Association of Hungarian Aluminium Producers	Association of Metalworkers' Unions; Federation of Trade Unions of the Chemical, Energy and Allied Workers ; National Association of Metal and Machine Industrial Works Councils; Liga Iron and Metal Industrial Association; Association of Aluminium Industrial Trade Unions; Metallurgical Interest Representation Association
7. Machine Industrial Sectoral Dialogue Committee	Association of the Hungarian Vehicle Component Manufacturers; Hungarian Electronic and Info-communication Association; National Association of Hungarian Engineering Industries	Association of Metalworkers' Unions; Liga Iron and Metal Industrial Association; National Association of Metal and Machine Industrial Works Councils
8. Electricity Sub-Sectoral Dialogue Committee	Association of Electricity Utilities	Trade Union Federation of Electricity Workers; Trade Union of Mining Employees; LIGA VHSZ
9. Gas Sub-Sectoral Dialogue Committee	Association of Gas Distribution Companies	Federation of Trade Unions of the Chemical, Energy and Allied Workers ; Alliance of Gas Industrial Trade Unions; MOL Miners' Trade Union

Sector	Employers' side	Employees' side
10. Construction Sectoral Dialogue Committee	National Federation of Hungarian Contractors ; Professional Body of Constructors and Construction Affairs; Hungarian Cement Association; Hungarian Association for the Building Material Industry; Hungarian Furniture and Timber Association; IPOSZ; Cabinet Makers' National Association; National Professional Association of Forest Farmers	Federation of Building, Wood and Material Workers' Unions; Trade Union of Forestry and Timber Industrial Workers; National Federation of Construction and Associated Trade Unions
10.1. Construction Material Sub-Sectoral Dialogue Committee	Hungarian Association for the Building Material Industry; Hungarian Cement Association	Building Material Workers' Trade Union
10.2. Construction Sub-Sectoral Dialogue Committee	National Federation of Hungarian Contractors; Professional Body of Constructors and Construction Affairs	Trade Union of Construction Industry Employees; Independent Trade Union of Historical Monument Protection Employees
10.3. Timber and Furniture Industrial Sub-Sectoral Dialogue Committee	Association of Hungarian Timber Industrials and Furniture Makers; National Professional Association of Forest Farmers , National Cabinet Makers' and Timber Industrial Association	Trade Union of Timber and Furniture Industry Employees; National Association of the Timber Industrial Section of Works Councils
11. Trade Sectoral Dialogue Committee	National Federation of Consumer Cooperatives; National Federation of Traders and Caterers; OKSZ	Trade Union of Commercial Employees
12. Tourism and Restaurants Sectoral Dialogue Committee	National Association of Restaurant and Tourism Employers	Trade Union of Employees of Restaurants and Tourism
12.1. Communal Catering Sub-Sectoral Dialogue Committee	The same organisations are represented in sub-branch committees as in the sectoral committee, only the persons are different	
12.2. Travel Agents' Sub-Sectoral Dialogue Committee		
12.3. Hotels Sub-Sectoral Dialogue Committee		
12.4. Restaurants Sub-Branch Dialogue Committee		
13. Air Transport Sectoral Dialogue Committee	MALÉV Hungarian Airlines.; Hungaro-Control; Budapest Airport Rt.; Aeroplex of Central Europe; Hungarian Rail and Air Transport Association	Independent Trade Union of Airport Traffic Employees; Trade Union of Economist Professionals; Malév Trade Union Organisation; Hungarian Airlines Pilots Association (HUNALPA); HUNACCA; Independent Trade Union of Air Transport Employees; Trade Union of Control Technology Employees; Independent Trade Union of Air Controllers; Trade Union of Airport Minibus Drivers; Trade Union of Hungarian Air Transport Services; Trade Union of Air Transport, Administration, Financial and Educational Employees
14. Road Transport Services Sub-Sectoral Dialogue Committee	National Association of Transportation Entrepreneurs; Association of Hungarian Road Transporters; Association of Road Transport Companies; International Industrial Association of Private Transportation Companies	Public Road Transport Trade Union; Union of Employees in Bus and Passenger Transport; Alliance of Budapest Transport Trade Unions; European Trade Union of Haulers; Trade Union Association of Transport Employees; Association of Transport Works Councils; LIGA Sectoral Alliance of Transport Trade Unions; Alliance of Trade Unions of City Public Transport Employees; National Trade Union of International and Professional Vehicle Drivers

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Sector	Employers' side	Employees' side
15. Communication Sectoral Dialogue Committee	Hungarian Electronic and Info-communication Association; Hungarian Association of IT Companies; Hungarian Association of Content Industry; Hungarian Cable Communications Association; National Association of Strategic and Public Utility Companies	Trade Union Association of Postal and Communications Employees; Sectoral Trade Union of Hungarian Telecommunications; Association of Metal Workers' Unions; Informatics Trade Union; Association of Hungarian Telecommunications Trade Unions
16. Water Utilities Sectoral Dialogue Committees	The Hungarian Professional Association of Water and Sewerage Companies	Trade Union Association of Water Public Utility Employees
17. Bath Services Sub-Sectoral Dialogue Committee	Hungarian Baths Association	Trade Union Association of Water Public Utility Employees
18. Municipal Services Sub-Sectoral Dialogue Committee	COMMUNITAS Municipal Services Association; Real Estate Management Association; Public Sanitary Association; National Craft Corporation of Chimney Sweepers; National Association of Hungarian Garden Builders and Maintainers; Professional Association of Hungarian District Heating Companies Magyar; National Association and Craft Corporation of Undertakers; Association of Municipal Services	Trade Union of Employees of Local Industry and Municipal Finances (HVD SZ 2000)
19. Rehabilitation Employers' Sub-Sectoral Dialogue Committee	National Association of Sheltered Organisations	Trade Union of Employees of Local Industry and Municipal Finances (HVD SZ 2000)
20. Private Security Sub-Sectoral Dialogue Committee	Employers' Association of Hungarian Security Companies	Association of Assets Guardians' Trade Unions
21. Post Sub-Sectoral Dialogue Committee	Hungarian Post	Postal Trade Union; Independent Alliance of Postal Workers

Source: Sectoral Dialogue Centre.

**Table 11.21: Presence of works (public servant) councils by sector and gender.**  
**The share of yes answers in workplaces employing more than 50 (2001, 2004)**

Sector	2001			2004			Change, total %
	Men	Women	Total	Men	Women	Total	
Agriculture, fishery	15.6	8.8	14.0	23.1	26.9	24.0	10.0
Mining	40.2	54.3	42.2	48.5	48.5	48.5	6.3
Manufacturing	31.5	26.4	29.2	37.0	33.0	35.3	6.0
Electricity	42.3	39.8	41.6	45.4	51.9	47.2	5.6
Construction	8.8	23.5	10.2	10.5	27.8	13.1	2.8
Trade, repairing	16.0	15.2	15.6	17.3	19.7	18.6	3.0
Hotels and restaurants	13.6	19.5	16.9	12.8	19.9	16.6	-0.3
Transport, storage	49.0	56.2	51.1	55.3	61.2	56.9	5.8
Financial intermediation	10.2	18.9	15.9	29.9	24.1	26.2	10.3
Real estate, renting	19.3	13.4	16.7	18.1	20.0	19.0	2.3
Public administration, defence, social security	25.7	38.2	31.7	28.7	34.4	31.4	-0.3
Education	44.3	43.9	44.0	52.1	49.9	50.5	6.5
Health and social care	41.2	38.4	39.1	37.7	41.9	40.9	1.8
Other social community services	16.8	33.5	23.7	29.9	30.8	30.3	6.6
Grand total	30.7	31.9	31.2	35.5	36.7	36.0	4.8

Source: Central Statistical Office, Labour Force Survey.

**Table 11.22: Strikes**

Year	Number of strikes	Number of involved persons	Hours lost (thou)
1991	3	24,148	76
1992	4	1,010	33
1993	5	2,574	42
1994	4	31,529	229
1995	7	172,048 <sup>a</sup>	1,708 <sup>a</sup>
1996	8	4,491	19
1997	5	853	15
1998	7	1,447	3
1999	5	16,685	242
2000	5	26,978	1,192
2001	6	21 128	61
2002	4	4,573	9
2003	7	10,831	19
2004	8	6,276	116

<sup>a</sup> Teachers strikes number partly estimated.

Source: Central Statistical Office.

**Table 12.1: Employment and unemployment rate of population aged 15–64 by sex in the EU–15 and EU–25, 2004**

Country	Employment rate			Unemployment rate <sup>1</sup>		
	Men	Women	Total	Men	Women	Total
Austria	74.9	60.7	67.8	4.4	5.4	4.9
Belgium	67.9	52.6	60.3	6.7	8.3	7.4
Denmark	79.7	71.6	75.7	5.1	5.5	5.3
United Kingdom	77.8	65.6	71.6	5.0	4.2	4.6
Finland	69.7	65.6	67.6	10.3	10.6	10.4
France	68.9	57.4	63.1	7.9	9.7	8.7
Greece	73.7	45.2	59.4	6.5	16.0	10.4
Netherlands	80.2	65.8	73.1	4.4	5.0	4.7
Ireland	75.9	56.5	66.3	5.1	3.9	4.6
Luxembourg	72.4	50.6	61.6	3.3	6.9	4.8
Germany	70.8	59.2	65.0	11.4	10.2	10.8
Italy	70.1	45.2	57.6	6.4	10.3	8.0
Portugal	74.2	61.7	67.8	6.0	7.6	6.7
Spain	73.8	48.3	61.1	8.2	15.3	11.1
Sweden	73.6	70.5	72.1	7.3	6.2	6.8
EU-15	72.7	56.8	64.7	7.7	9.2	8.4
Hungary	63.1	50.7	56.8	5.8	5.9	5.9
Cyprus	80.0	59.0	69.1	3.6	5.5	4.4
Czech Republic	72.3	56.0	64.2	7.1	9.7	8.3
Estonia	66.4	60.0	63.0	11.7	9.0	10.4
Poland	57.2	46.2	51.7	18.8	20.0	19.4
Latvia	66.4	58.5	62.3	9.4	10.7	10.1
Lithuania	64.7	57.8	61.2	11.2	11.6	11.4
Malta	75.2	32.8	54.1	6.9	7.9	7.2
Slovakia	63.2	50.9	57.0	17.8	19.6	18.6
Slovenia	70.0	60.5	65.3	5.8	6.5	6.1
EU-25	70.9	55.7	63.3	8.7	10.2	9.4

<sup>1</sup> 2<sup>nd</sup> Quarterly.

Source: Employment in Europe, 2005.



Table 12.2: Employment composition, 2004

Country	Self employed	Part time	Fix term contr	Service	Industry	Agriculture
Austria <sup>1</sup>	18.9	20.2	9.6	n.a.	n.a.	n.a.
Belgium	16.3	21.4	8.7	77.2	20.5	2.3
Denmark	7.0	22.2	9.5	74.8	21.5	3.6
United Kingdom	12.8	25.8	6.0	81.3	17.9	0.9
Finland	11.5	13.5	16.1	69.4	25.6	5.0
France	8.8	16.7	12.8	75.3	21.1	3.5
Greece	40.2	4.6	11.9	62.9	23.3	13.8
Netherlands	14.1	45.5	14.8	78.2	18.5	3.3
Ireland	17.4	16.8	4.1	66.1	27.6	6.3
Luxembourg	6.7	17.8	4.9	77.5	21.2	1.3
Germany	10.9	22.3 <sup>a</sup>	12.4 <sup>a</sup>	71.3	26.4	2.3
Italy <sup>1</sup>	25.2	12.7	11.8	66.6	29.0	4.4
Portugal	24.1	11.3	19.8	n.a.	n.a.	n.a.
Spain	14.8	8.7	32.5	64.4	29.9	5.7
Sweden	4.9	23.6	15.5	75.1	22.5	2.4
EU-15	14.9	19.4	13.6	71.9	24.3	3.9
Hungary	14.2	4.7	6.8	62.0	32.9	5.1
Cyprus <sup>2</sup>	24.0	8.5	12.9	n.a.	n.a.	n.a.
Czech Republic	18.8	4.9	9.1	58.3	37.8	4.0
Estonia	9.6	8.0	2.6	59.5	34.7	5.8
Poland <sup>2</sup>	29.0	10.8	22.7	n.a.	n.a.	n.a.
Latvia	13.3	10.4	9.5	60.9	26.5	12.5
Lithuania	18.4	8.4	6.3	56.1	28.1	15.8
Malta	8.7	8.7	3.9	n.a.	n.a.	n.a.
Slovakia	12.3	2.7	5.5	61.8	34.2	3.9
Slovenia	16.7	9.3	17.8	53.1	36.4	10.5
EU-25	15.9	17.7	13.7	69.7	25.2	5.1

\* 2<sup>nd</sup> Quarterly.

<sup>1</sup> 2004: Break in time series.

<sup>2</sup> Preliminary.

Source: Employment in Europe, 2004.

Table 12.3: Monthly statutory minimum wage rates, Full-time adult employees, aged 23+\*

Country	2004			2005		
	In local currency	In euros	Date effective <sup>1</sup>	In local currency	In euros	Date effective <sup>1</sup>
Belgium		1,317.5	2004.02.01.		1,234	2005.06.01.
Bulgaria	120 leva	61	2004.01.16.	150 leva	77	2005.01.28.
Croatia	–	–	–	2,080 kuna	285	2005.01.01.
Cyprus <sup>a</sup>	350 Cyprus pound	600	2004.06.01.	362 Cyprus pound	631	2005.04.01.
Czech Republic	6,700 koruna	211	2004.01.01.	7,185 koruna	238	2005.01.01.
Estonia	2,480 kroon	159	2004.01.01.	2,690 kroon	172	2005.01.01.
France <sup>b</sup>		1,154.13	2004.06.25.		1,217	2005.07.01.
Greece <sup>c</sup>		559	2004.09.01.		560	2004.09.01.
Hungary	53,000 forint	212	2004.01.01.	57,000 forint	232	2005.01.01.
Ireland		1,213.33	2004.02.01.		1,326	2005.05.01.
Latvia	80 lats	121	2004.01.01.	80 lats <sup>d</sup>	121	2004.01.01.
Lithuania	450 lita	130	2003.09.01.	550 lita	159	2005.07.01.
Luxembourg <sup>e</sup>		1,403	2003.08.01.		1,467	2005.01.01.
Malta	233.48 lira	543	2004.01.01.	241.06 lira	557	2005.01.01.
Moldova	340 leu	23	2003.07.01.	440 lei	26	2004.02.01.
Netherlands		1,264.8	2003.07.01.		1,264	2003.07.01.
Poland	824 zloty	183	2004.01.01.	849 zloty	208	2005.01.01.
Portugal		365.6	2004.01.01.		374	2005.01.01.
Romania	2,800,000 leu	68	2004.01.01.	3,300,000 leu	91	2005.01.01.
Russia	600 rubles	17	2003.10.01.	720 rubles	19	2005.01.01.
Serbia	5,395 new dinars	73	2004.02.01.	5,395 new dinars	73	2004.02.01.
Slovakia	6,500 koruna	163	2004.10.01.	6,500 koruna	163	2004.10.01.
Slovenia	117,500 tolar	484	2004.08.01.	122,600 tolar	514	2005.08.01.
Spain		490.8	2004.06.25.		513	2005.01.01.
Turkey	444,150,000 lira	250	2004.07.01.	489 new lira	266	2005.01.01.
Ukraine	205 hryvnia	31	2003.12.01.	262 hryvnia	36	2005.01.01.
United Kingdom	840.67 pounds sterling	1,226	2004.10.01.	875 pounds sterling	1,273	2005.10.01.

\* Where official rates are expressed by the hour or week, they have been converted to monthly rates on the basis of a 40-hour week or 52-week year. Minimum wage figures exclude any 13<sup>th</sup> or 14<sup>th</sup> month payments that may be due under national legislation, custom or practice.

<sup>1</sup> Minimum wage levels last updated.

<sup>a</sup> Unmarried white collar workers only.

<sup>b</sup> Unskilled workers only.

Source: FedEE review of minimum wage rates: [www.fedee.com/minwage.html](http://www.fedee.com/minwage.html)

## DESCRIPTION OF THE MAIN DATA SOURCES

### 1. CSO Labour Force Survey

The Hungarian Central Statistical Office has been conducting a new statistical survey since January 1992 – using the experience of the pilot survey carried out in 1991 – to obtain ongoing information on the labour force status of the Hungarian population. The Labour Force Survey (LFS) is a household survey which provides quarterly information on the non-institutional population aged 15–74. The aim of the survey is to observe employment and unemployment according to the international statistical recommendation based on the concepts and definitions recommended by the ILO independently from the existing national labour regulations or their changes.

In international practice, the labour force survey is a widely used statistical tool to provide simultaneous, comprehensive and systematic monitoring of employment, unemployment and underemployment. The survey techniques minimise the subjective bias in classification (since people surveyed are classified by strict criteria) and provide freedom to also consider national characteristics.

In the LFS the population surveyed is divided into two main groups according to the economic activity performed by them during the reference week (the week running from Monday to Sunday which contains the 12<sup>th</sup> day of the month):

- economically active persons (labour force) and
- economically inactive persons.

The group of economically active persons consists of those being in the labour market either as employed or unemployed during the reference week.

The definitions used in the survey follow the ILO recommendations. According to this those designated employed are persons aged 15–74 who, during the reference week:

- worked one hour or more for pay, profit or payment in kind in a job or in a business (including on a farm),
- worked one hour or more without payment in a family business or on a farm (i.e. unpaid family workers),
- had a job from which they were temporarily absent during the survey week.

Persons on child-care leave are classified according to their activity. Conscripts are considered as

economically active persons, exceptions are marked in the footnotes of the table.

From the survey's point of view the activities below are not considered as work:

- work done without payment for another household or institute (voluntary work),
- building or renovating of an own house or flat,
- housework,
- work in the garden or on own land for self-consumption.

Unemployed persons are persons aged 15–74 who:

- were without work, i.e. neither had a job nor were at work (for one hour or more) in paid employment or self-employment during the reference week
- had actively looked for work at any time in the four weeks up to the end of the reference week,
- were available for work within two weeks following the reference week or were waiting to start a new job within 30 days.

Active job search includes: contacting a public or private employment office to find a job, applying to an employer directly, inserting or answering advertisements, asking friends, relatives or other methods.

The labour force (i.e. economically active population) comprises employed and unemployed persons.

Persons are defined economically inactive (i.e. not in the labour force) if they were neither employed nor unemployed, as defined.

Passive unemployed (known as “discouraged persons” according to the ILO concepts) are persons aged 15–74 who desire a job but have given up any active search for work, because they do not believe that they are able to find any.

The Labour Force Survey is based on a multi-stage stratified sample design. The stages of sampling are defined as follows: primary sampling units (PSUs) are enumeration districts (EDs) and secondary sampling units (SSUs) are dwellings in settlements with 15,000 or more inhabitants, while PSUs are settlements, SSUs are EDs and ultimate sampling units are dwellings in all other cases.

The sampling frame or address register of the LFS consists of 12,775 sample units (SUs), covers 751 set-

lements of the country, and contains about 626,000 addresses. The quarterly sample of the LFS is selected from the address register. From each of the 12,775 SU's, three addresses are selected by simple random sampling. The interviewers visit one address in each SU during one month. The main indicators of the labour market are representative for regions.

The LFS sample is basically a sample of dwellings, and in each sampled dwelling, labour market information is collected from each household and from each person aged 15–74 living there. For 1998, the quarterly sample contains about 32,000 households and 65,000 persons. The sample has a simple rotation pattern: any household entering the sample at some time is expected to provide labour market information for six consecutive quarters, then leaves the sample permanently. The samples of two consecutive periods tend to be less than 5/6, which would be obtained at a 100 per cent response rate.

In the LFS sample design strata are defined in terms of geographic units, size categories of settlements and area types such as city centres, outskirts, etc.

## 2. CSO Labour Force Accounting Census

Before the publication of the Labour Force Survey the annual Labour Force Account gave a view of the total labour force in the period between the two census.

The Labour Force Account, as its name shows, is a balance-like account which compares the labour supply (human resources) to the labour demand at an ideal moment (1 January). Population is taken into account by economic activity with a differentiation between those of working age and the population outside of the working age.

Source of data: Annual labour survey on employment on 1<sup>st</sup> January of enterprises with more than 20 employees and of all government institutions, labour force survey, census, tax records and social security records, and company registry. The number of persons employed in small enterprises having a legal entity is based on estimation. Data on unemployment comes from the registration system of the National Employment Service.

Source of the labour force: working age population, active earners out of working age and employed pensioners.

## 3. CSO Institution-Based Labour Statistics

The source of data is the monthly (annual) institutional labour statistical survey. The survey range covers enterprises with at least 5 employees, and public and social insurance and non-profit institutions irrespective of the staff numbers of employees.

The earnings relate to the full-time employees on every occasion. The potential elements of the prevailing monthly average earnings are: basic wages, bonuses, allowances (including miner's loyalty bonus, any Széchenyi-grant), payments for time not worked, bonuses, premiums, wages and salaries for the 13th and more months.

Net average earnings are calculated by deducting from the gross average earnings the actual personal income tax, employee's social security contributions, etc., according to the actual rates (i.e. taking into account the threshold concerning the social security contribution). It does not take into account the impact of the new tax allowance related to the number of children. The personal income tax is calculated by the actual withholding rate applied by the employers when paying out monthly earnings.

The difference between the gross and the net (after-tax) income indexes depends on eventual annual changes in the tax table (tax brackets) and in the tax allowances.

The change of net earnings is estimated as the ratio of net income index and the consumer price index above 100 per cent in the same period.

Non-manual workers are persons with occupations classified by the ISCO-88 in major groups 1-4., manual workers are persons with occupations classified in major groups 5-9. since 1st January 1994. Census data were used for the estimation of the employment data in 1980 and 1990. The aggregate economic data are based on national account statistics, the consumer's and producer's price statistics and industrial surveys. A detailed description of the data sources are to be found in the relevant publications of the Statistics Office.

#### 4. *Unemployment Register Database*

The other main source of unemployment data in Hungary – and in most of the developed countries – is the huge database containing so called administrative records which are collected monthly and include the individual data of the registered unemployed.

The register actually contains all job seekers, but out of them, at a given point of time, only those are regarded as registered unemployed who:

- had themselves registered with a local office of the National Employment Office as unemployed (i. e. he/she has got no job but wishes to work, for which they seek assistance from the labour market organisation).
- at the point of time in question (on the closing days of the individual months), the person is not a pensioner or a full-time student, and is ready to co-operate with the local employment office in order to become employed (i. e. he/she accepts the job or training offered to him/her, and keeps the appointments made with the local employment office's placement officer/counsellor).

If a person included in the register is working under any subsidised employment programme on the closing day, or is a participant of a labour market training programme, or has a short-term, temporary job her/his unemployed status is suspended.

If the client is not willing to co-operate with the local office he/she is removed from the register of the unemployed.

The data – i. e. the administrative records of the register – allow not only for the identification of data related data but also for monitoring flows: inflow as well as outflow.

Based on the records of the labour force needs reported to the Employment Office, the stock and flow data of vacancies are statistically processed each month.

Furthermore, detailed monthly statistics of participation in the different active programmes, number of participants and their inflow and outflow are prepared monthly, based on the support amounts actually paid.

The very detailed monthly statistics – in a breakdown of country, region, county, local employment office service delivery area and community – build on

the secondary processing of administrative records that are generated virtually as the rather important and useful “by-products” of the accomplishment of the National Employment Office's main functions (such as placement services, payment of benefits, active programme support, etc.).

The Employment Office (and its predecessors, i. e. OMK (National Labour Centre), OMMK and OM-KMK) has published the key figures of these statistics on a monthly basis since 1989. The more detailed reports which also contain data by local office service delivery area are published by the County/Metropolitan (Budapest) Labour Centres.

The denominators of the unemployment rates calculated for the registered unemployed are the economically active population data published by the Central Statistical Office's labour market account, and its breakdown by region and county.

The number of the registered unemployed and the registered unemployment rate are obviously different from the figures of the Central Statistical Office's labour force survey. It is mainly the different conceptual approach and the fundamentally different monitoring/measuring methods that account for this variance.

#### 5. *Short-Term Labour Market Forecast Database*

At the initiative and under the co-ordination of the Employment Office (and its legal predecessors), the employment organisation has conducted the so called short prognosis survey since 1991, twice a year, in March and September. The survey uses an enormous sample obtained by interviewing over 4,500 employers.

The interview focuses on the companies' projections of their material and financial processes, their development and human resource plans, and they are also asked about their concrete lay-off or recruitment plans as well as their expected need for any active labour market programmes.

The surveys are processed in a breakdown of service delivery area, county and country, providing useful information at all levels for the planning activities of the employment organisation.

The prognosis survey provides an opportunity and possibility for the counties and Budapest to analyse in greater depth (also using information from

other sources) the major trends in their respective labour markets, to make preparations for tackling problems that are likely to occur in the short term, and to effectively meet the ever-changing needs of their clients.

The forecast is only one of the outputs of the short term prognosis. Further very important “by-products” include regular and personal liaison with companies, the upgraded skills of the placement officers and other administrative personnel, enhanced awareness of the local circumstances, and the adequate orientation of labour market training programmes in view of the needs identified by the surveys.

The prognosis surveys are occasionally supplemented with supplementary surveys to obtain some further useful information that is used by researchers and the decision-makers of employment and education/training policy.

#### *6. Wage Survey Database*

The Employment Office (and its legal predecessors) has conducted since 1992, once a year, a representative survey to investigate individual wages and earnings. The survey uses an enormous sample and is conducted at the request of the Ministry of Economic Affairs (formerly: Ministry of Labour and Ministry of Social and Family Affairs).

The reference month of data collection is the month of May every year, but for the calculation of the monthly average of irregularly paid benefits (beyond the base wage/salary), the total amount of such benefits received during the previous year is used.

In the competitive sector, initially data collection only covered companies of over 20 persons; in this group it is incumbent on all companies to provide information, but the sample only includes employees born on certain days.

Data collection has covered companies of 10-19 since 1996, and companies of 5-9 have been covered since 1999, where the companies actually involved in data collection are selected at random (ca. 20 per cent) and the selected ones have to provide information about all their full-time employees.

Data on basic wages and earnings structure can only be retrieved from these surveys in Hungary, thus it is practically these huge, annually generated databases that can serve as the basis of the wage

reconciliation negotiations conducted by the social partners.

In the budgetary sector all budgetary institutions provide information, regardless of their size, in a way that the decisive majority of the local budgetary institutions – the ones that are included in the TAKEH central payroll accounting system - provide fully comprehensive information, and the remaining budgetary institutions provide information only about their employees who were born on certain days (regarded as the sample).

Data has only been collected on the professional members of the armed forces since 1999.

Prior to 1992, such data collection took place every three years, thus we are in possession of an enormous data base of the years of 1983, 1986 and 1989.

Of the employees included in the sample, the following data are available:

- the sector the employer operates in, headcount, employer’s local unit, type of entity, ownership structure
- employee’s wage category, job, male/female, age, educational background.

Based on the huge databases which include the data by individual, the data is analysed every year in the following way:

Standard data analysis, as agreed upon by the social partners, used for wage reconciliation negotiations (which is received by every confederation participating in the negotiations)

Model calculations to determine the expected impact of the rise of the minimum wage

Analyses to meet the needs of the Wage Policy Department, Ministry of Economic Affairs, for the comparison and presentation of wage ratios (total national economy, competitive sector, budgetary sector, regional volume)

The entire database is adopted every year by the Central Statistical Office, which enables the Office to also provide data for certain international organisations, (e. g. ILO and OECD). The Employment Office also provides regularly special analyses for the OECD.

The database containing the data by individual allows for a.) the analysis of data for groups of people determined by any combination of pre-set criteria, b.) the comparison of real basic wage and earnings,



with special regard to the composition of the different groups analysed, as well as c.) the analysis of the spread and differentiation level of the basic wages and earnings.

### *7. Unemployment Benefit Register*

The recipients' fully comprehensive registry is made up, on the one hand, of the accounting records containing the disbursed unemployment benefits (unemployment benefit, school leavers' unemployment benefit and pre-retirement unemployment benefit) and, on the other hand, of the so-called master records containing the particulars of benefit recipients. This register allows for the accurate tracking of the recipients' benefit related events, the exact date of their inclusion in and removal from the system, as well as why they have been removed from it (e.g. got a job, eligibility period expired, were excluded, joined an active labour market programme, etc.)

This huge database allows for reporting for any point of time the detailed data of persons who received benefits on a given day, in a breakdown of country, region, county and local office service delivery area. In order to align these data with the closing day statistics of the registered unemployed, these monthly statistics are also completed by the 20th of each month.

In addition, the monthly statistics also contain information of the so-called temporary recipients, e.g. the number of those who have received benefits on any day of the month between the previous month's and the given month's closing day. Of course, data indicating inflows and outflows are reported here.

It is an important and rather useful aspect from a research perspective that, in addition to the standard closing day statistics, groups defined by any criteria can be tracked in the benefit register, e.g. inflow samples can be taken of newly registered persons for different periods, and through tracking them in the registry system the benefit allocation patterns of different cohorts can be compared.

The detailed data of unemployment benefit recipients have been available from the benefit register since January 1989. The first two years had a different benefit allocation system, and the current system, which has been modified several times since

then, was implemented by the Employment of 1991 (Act IV).

For the period of between 1991 and 1996, the register also contains the stock and flow data of the recipients of school leavers' unemployment benefit. Since 1997 the system has also contained the recipients of pre-retirement unemployment benefit.

In addition to headcount data, the benefit register can also monitor the average duration of the period of benefit allocation and the average monthly amount of the benefits allocated.

The key data regarding benefits are published by the Employment Office in the monthly periodical Labour Market Situation. In addition, time series data is published annually in the Time Series of the Unemployment Register, always covering the last six years in the form of a monthly breakdown.

### *8. HCSO Census Data*

The largest data collection of the Central Statistical Office is the population and housing census, covering the entire population of the country. The reference date of the last census was 0 o'clock on February 1, 2001. The census data published refer to this survey, though regarding the most important characteristics, with the help of the data of the 1980 and the 1990 census respectively, it is possible to study the changes occurred in the last decades. The data of the previous censuses – within certain limits – have been adjusted according to the concepts of the last census (e.g. the data on employment, employers of the 1980 and the 1990 census are reflecting to the definitions, registers of 2001).

The data refer to the resident population of the census in general, while in some cases to the respective groups of population (e.g. persons in employment, engaged in non-agricultural activities, aged 15 years and older). Resident population of the census means the group of persons staying in fact on the place of the enumeration, those who live their everyday life there, can be contacted on the given address, spend most of their night-rests on that place, go to work or to school from that place. This grouping is basically in line with the concept of resident population of the 1980 and 1990 censuses, where the intent for the official registration had been regarded as a matter of

fact of a valid official registration. The census 1990 defined the resident population on the basis of the registered addresses (of the population).

As far as the economic activity of the population is concerned, the census applies the concepts of the International Labour Organization (ILO), while – due to the limits in the size and time of the enumeration – the issue of unemployment cannot be studied as deeply as the continuous labour survey does it. In the frame of the labour force survey the unemployment rate is based on a well-defined set of data, by putting on several related questions. A person for example, spending the term of notice at his employer is regarded as person in employment even if he declares himself as unemployed. This correction cannot be made in the case of the census, as – due to the limits in scope – the subject of the notice have not been raised. As the information on unemployment in case of the census is based on the biased judgement of the individuals, there might be some differences against the findings of the labour survey.

The grouping system of the occupations at the census 2001 is based on the nomenclature of the Hungarian Standard Classification of Occupations (further FEOR-93), being in force as from 1997. As to basic principles and structure, it follows the international classification of occupations, ISCO-88 (Rev. 3.), and classifies the occupations into the same 10 major groups. In some tables “legislators, senior government officials, leaders of interest groups and managers of firms” and “professionals” are grouped together as “leaders, intellectuals”, “technicians and associate professionals” and “office and management (customer service) clerks” are grouped together as “other non-manual workers”. In the same tables the group of “craft and related trades workers” include “plant and machine operators and assemblers, vehicle drivers” too, while the group “other occupations” contains elementary occupations and armed forces together.

The classification of the employers or economic activities corresponds to the Hungarian Standard Industrial Classification (TEÁOR) of 1998.



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