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1. Introduction

The number of self-employed¹ in Hungary among the 6.8 million population aged 15-64 was around 460 000 in the first quarter of 2008 (6.8 %, slightly above the EU-27 average, according to Eurostat data). Most of the self-employed in Hungary are own-account workers (70%) and only about a third of these have employees.

During the recent economic crisis, total employment contracted by almost two percentage points from the already low 56 % between the first quarter of 2008 and that of 2010, whereas the self-employment rate increased marginally. Unfortunately, there is no recent study available on the change in income of the self-employed for the same time period and because earnings information is deleted from LFS microdata, it is not possible to look at the earnings of this group in a fashion consistent with the LFS definition. An earlier unpublished manuscript, (Cseres-Gergely 2008) shows average earnings for the self-employed and salaried employees calculated from the 2004 Household Budget Survey and finds that there was no substantial difference between those. At the same time, it appears that this similarity in averages hides important differences. While sole-proprietors with employees earned a 15 (men) to 30 (women) percentage premium above the average, those without employees earn below the average and family helpers earn around half of it. Co, Gang, and Yun (2002), comparing the earnings of the self-employed and those in salaried employment in Hungary, found that although wages of the former are higher by about a third than the latter, there is no difference in the determinants of earnings.

After the political and economic transition in 1990, self-employment and entrepreneurship fuelled high hopes and attracted great attention in Hungary (see Czakó et al. 1995, or Scharle 2000 on this, for example), but it gradually became clear that these were largely unwarranted. Many of those called an ‘entrepreneur’ in Hungary today are self-employed out of need and not because of the desire for innovation (Bosma and Levie, 2010). Although recent systematic analysis is missing, it appears that self-employment is partly an alternative to unemployment but also a means of minimising tax payments but is not seen as an attractive career path, see (Bosma and Levie, 2010).

Perhaps also because of its perceived status, self-employment has never become an important part of the political agenda. Although there were and possibly will be support available to SMEs (such as microfinance), thus also to the self-employed, these are not motivated by supporting the latter specifically. During the economic crisis, the Hungarian government has almost exclusively stressed the importance of preserving jobs. Solving employment problems through becoming self-employed was never on the political agenda, nor a matter of public debate or supported by measures. The recently published proposal on the development plan for Hungary, the second “Szécheny plan” mentions self-employment as an important form of atypical employment, capable of contributing significantly to the creation of the targeted one

1 According to the ILO LABORSTA (2010) “Employers, own-account workers, members of producers’ cooperatives, ... unpaid family workers and ... persons engaged in the production of economic goods and services for own and household consumption should be considered as in self-employment.” Because suitable data do not exist in the LFS, it is common to drop the latter part from the above definition – this is what is done here. Also, this discussion refers to those with self-employed as their *first* employment status. The share of those in secondary self-employment, besides salaried full-time employment for example, is only around 0,5 % and hence omitted.

million extra workplaces in the coming then years (NGM 2010).

2. Assessment of national LM policies and recovery measures

Self-employment related governmental action in Hungary is connected less to fighting non-employment and more to business creation and development. It works through indirect and direct means, the emphasis being on the former. Indirect methods target business activity in general and include the provision of information on setting up a business, including entering self-employment, developing the business environment as well as influencing the administrative burden and influencing the cost of employment (see MET 2007 and related governmental documents). Despite not being targeted, these measures promote self-employment more than they do other entrepreneurial activity because almost all of the affected burdens on entry or growth are likely to be more binding for smaller players as flat costs amount to a higher share of the budget for them than they do to larger ones. Methods promoting self-employment directly focus on the provision of financial assistance, including direct subsidies to the unemployed or providing discount micro-finance facilities.

One important channel of the provision of information is the provision of thematic websites. The main governmental site in Hungary, Magyarország.hu (Hungary.hu) offers reasonable access to legal material, but is not very intuitive to use and it does not go beyond the bare legal essentials. The related website of the EU portal ('Your Europe - Business support – Hungary') gives much clearer guidance: it not only guides one through the process of setting up a business, but it also guides the user to NGOs which will probably be essential for successfully setting up a small business. These include chambers of commerce and the small number of foundations and other NGOs providing guidance and coaching. Perhaps the best known and best established of these is the SEED foundation, which specialises in helping to set up and run small businesses.

Besides the scarcity of information and experience in running businesses, high direct costs might also have a negative effect on setting up a business of any kind. Such costs include actual monetary costs as well as the complexity and time required for administrative processes. During the past years, a number of steps were taken to ease these burdens, including deregulation in general, simplification of reporting and obtaining certain permits, reducing the number of taxes, etc. Also, the lowering of the social security contribution for all workers by 5 percentage points from January 2010 onwards is a first step in reducing the cost of employment. It is promising that the new government shares the ideas taking shape in these steps and plans to continue with them and perhaps take them even further (NGM 2010).

Unfortunately, there are governmental regulations which go against setting up a business, in particular a small business. One of the two probably most important of these is maintaining the minimum wage at a relatively high level. This in itself prevents a substantial number of unskilled workers from being employed legally, either as self-employed or as employees of the self-employed, often resulting in employers cheating with the minimum wage (this is the most frequent type of violation of legal requirements found by labour inspectors). Another regulation was intended to fight the poor tax morale in Hungary, first by imposing a mandatory social security contribution based on twice the minimum wage also for the self-employed as opposed to actual payments (in the absence of a direct proof that there is a genuine reason for wages being paid below this). From 2010 onwards, the required payment of contributions is based on 'expected wages' broken down by professions. This new system

is more refined but can still lead to large differences between actual and expected contributions and imposes a considerable administrative burden. Although it is widely accepted that a number of individuals, among which the self-employed are over-represented, do not pay enough social security contributions, such regulation puts start-up and less profitable small businesses into a difficult situation. Because of this, the current regulation is the subject of active debate and criticism.

The facilities offered by micro-finance institutions, chiefly provided through the Magyar Vállalkozásfinanszírozási Zrt (Hungarian Business Financing public company) can be categorised as direct and indirect support. These subsidised loans support start-up or small micro-enterprises with investment funds or working capital and have both lower transaction costs and rates of interest (around 1 percentage point more than the base rate) than non-subsidised commercial loans. Before 2008, this area was dominated by micro-finance facilities provided by banks (as part of the JEREMIE initiative and the New Hungary Microfinance Programme). After 2009, a transition has begun in which other, non-bank providers have gained ground (as part of the JASMINE initiative) (NFGM 2009). A formerly popular micro-finance facility called the ‘Széchenyi card’ is expected to be re-introduced – potentially with modifications – by the new government.

Interestingly, direct support for entering self-employment does not appear in either the National Reform Programme of Hungary or in its implementation reports, but the government seems to have a revealed preference for this approach. Rather than appearing in the chapter on employment policy, it is actually the governmental report on business development that deals with it (NFGM 2009). Direct support is focussed completely on the registered unemployed and provided through the regional employment centres. At the moment, there are three sources of support available. Two of these programmes are financed from the European Social Fund, focussing exclusively on vulnerable groups on the labour market: the disabled in the case of the SROP 1.1.1, while the SROP 1.1.2 programme focuses on the low qualified, people aged over 50, labour market entrants and young mothers. These programmes provide a wide range of assistance, of which supporting self-employment is only one type. The third programme is focussed exclusively on providing the registered unemployed a form of support to raise start-up capital and a kick-start wage subsidy.

Table 1: The subsidy scheme for the registered unemployed to support self-employment. The default scheme provides a maximum of HUF 2 million (EUR 7 117) subsidy, with a minimum of 20 % own contribution required.

	Capital grant		Proportion of decentralised funds used to support self-employment in 2007 (by region)
Central Hungary	default		“average”
Central Transdanubia	default		“average”
Western Transdanubia	Maximum of HUF 3 million (EUR 10 676), of which 66 % is an interest-free loan, 34 % is subsidy. A minimum of 20 % own contribution is required. The loan has to be paid back from month 13 within 60 months, in equal instalments.		6
Southern Transdanubia	default		4
Northern Hungary	default		2
Northern Great Plain	default		“average”
Southern Great Plain	Maximum of HUF 3 million (EUR 10 676), in the form of an interest-free loan or a subsidy or a combination of the two. A minimum of 20 % own contribution required. The loan has to be paid back from month 13 within 24 months, in equal instalments.		“average”

Source: Call for applications of the respective regional employment centres, www.afsz.hu. Proportion of use of funds: (NFGM 2009)

Financed from the decentralised part of the Employment Fund (the part of the central budget dedicated to employment policy in Hungary), this third programme of support has been available since February 2007, after the modification of Act IV of 1991 on the assistance provided to the unemployed. Calls for applications appear in April-May – the basic structure of the facility is the same in all regions. Participants are required to have at least three months of registered unemployment, together with setting up a new business, joining an existing business with a personal contribution or becoming an independent agricultural producer (*őstermelő* - a special status in Hungary). There are two types of support available, either one by one, or together: a) contribution to capital, b) support to wages during a start-up period. Priority applicants are slightly different for the regions, while conditions are the same for the wages subsidy part, but different in particular in the proportion of the subsidy and loan part (see Table 1).

As the calls for applications make clear, priority applicants are chosen based on the quality of the proposal and its match with the local labour market characteristics, but also on individual characteristics known to influence employment chances negatively: the Roma, older workers and entrants to the labour market are usually preferred.

Unfortunately there are few governmental programmes evaluated rigorously in Hungary and support for self-employment is no exception to this rule. Nevertheless, some steps have been taken in this direction both by the PES and the Ministry of National Development and Economy. The PES monitors take-up of the grant available from the PES offices and finds on the basis of preliminary data and methods – among others – that in 2009, the number of those using grants supporting entering self-employment is lower compared to those in training or receiving a wage subsidy. It would be worth re-visiting this type of analysis in 2011, when the method will have been matured.

It appears that there is only one scientific evaluation of a policy targeted towards the potential the self-employed in Hungary (O'Leary 1999) – unfortunately different from the one in operation at present. This evaluation looks at Poland and Hungary in tandem and finds significant positive effects of the support, along with substantial deadweight losses, that is evidence that many of the recipients would have achieved well even without the support.

3. Quality of self-employment jobs

Job quality of the self-employed is an area that no study appears to address in Hungary, as such. However, in order to provide an overview, regulations affecting the self-employed and simple empirical evidence coming from the Hungarian Labour Force Survey (HLFS) can be analysed. Given the nature of regulations, this provides only a set of possibilities regarding the social security provision to the self-employed, for example. Given that the HLFS is a non-specialised survey, the factors affecting job quality are limited to those regularly considered in it.

In a response to a request for comparative information, Horváth and Neumann 2009 provide important information on health care, pension, holiday and parental leave availability to the self-employed, of which only the most important are referred to here. Among these is the finding that the social security contribution requirements are similar to those of salaried employees, the important difference being that while the latter have no other choice but to have their full set of contributions deduced from their wages, the self-employed can use other means of payments. The result of this is that the self-employed *de jure* enjoy the same social security protection as salaried employees, but *de facto*, they often end up choosing a payment option which entitles them to less protection, especially in the area of pensions or maternity leave. Although this can be understood as a choice and legally it is, it can adversely affect the well-being of the self-employed and their families.

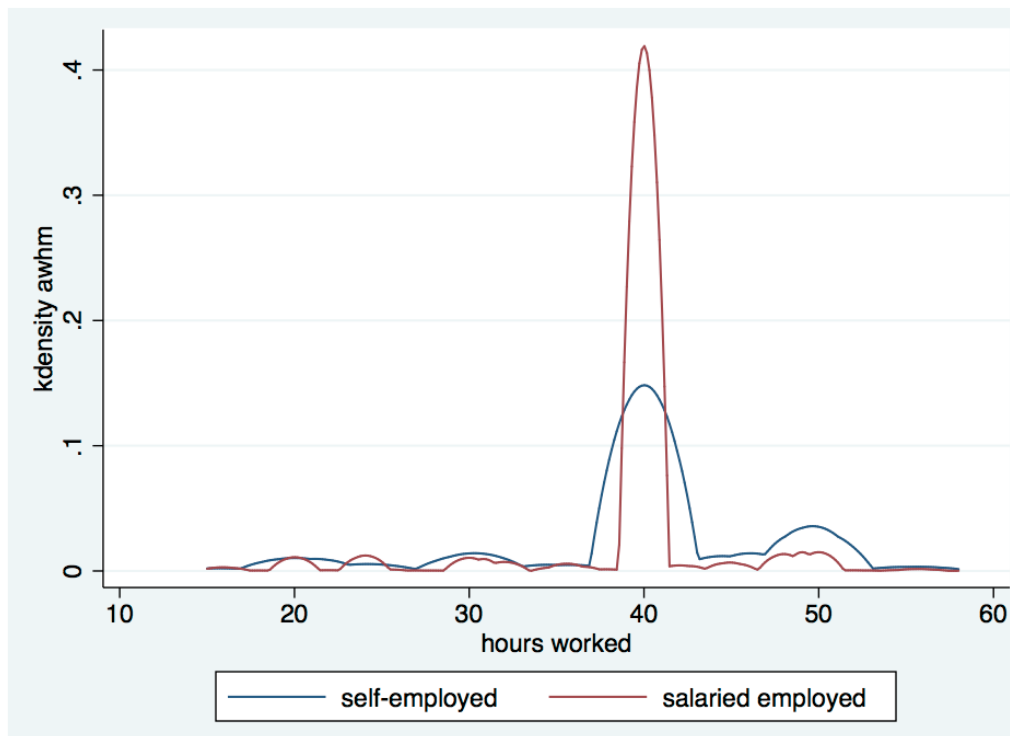


Figure 1: Kernel density estimate of actual hours worked during the week before the interview (calculated from LFS microdata, 2008 Q1, values below 15 and above 60 hours are trimmed)

It is not possible to replace in-depth research in a short report but one can use micro-data from the LFS to look at some facts concerning the labour market situation of the self-employed. Firstly, we can compare the self-employed population to that of other employees in terms of hours worked and reasons for not working. Very little variability in hours of worked is a characteristic feature of the Hungarian labour market. Indeed, actual hours worked is estimated sharply at 38.9 hours for the first quarter of 2008, the self-employed working 40.9, others working 38.6 hours in their main job. There are more self-employed people working long hours than others, and this difference is significant. Figure 1 shows that although most of the self-employed are working 40 hours, the difference comes largely from a greater number of them working 50 hours. If we repeat this analysis for the first quarter of 2009 (a year later, the crisis already showing its effects) we find similar results but the level of hours shifted. Although the self-employed are working 40 hours, others around 38, the 2 % gap remains.

Secondly, we can look at the characteristics of the self-employed who are currently not working. If there is a systematic difference between the quality of jobs of the two types of employees, we can expect that their reason for not working will be different. Given similar health conditions, we can expect that the better motivated group of the self-employed is less likely to be on sick-leave. Given that the labour code does not prescribe paid holiday for the self-employed, we expect them to be less likely to be on holiday if not working. Table 2 shows that in 2008, the self-employed are significantly less likely to be on holiday or on sick-leave than those in salaried employment, confirming our expectations – even if we count variable working time as a reason for not working, the self-employed have a 13 percentage

point deficit. Although the outbreak of the crisis has changed this structure somewhat, the overall picture remains the same.

Table 2: Proportion of reasons for not working on the week before the interview (percentages; calculations from LFS microdata for the first quarter of 2008 and 2009, the reason "because of bad weather" excluded)

	Salaried employed		Self-employed	
	2008 Q1	2009 Q1	2008 Q1	2009 Q1
On holiday	29	39	21	21
On sick-leave	44	32	28	29
Variable working time	1	1	13	19

Thirdly, it is informative to look at the labour market transitions of the self-employed to assess their employment security. In order to do this, we can exploit the panel-dimension of the LFS and follow individuals from one quarter to another. First we define four types of labour market status: 1) in salaried employment, 2) unemployed, 3) out of the labour force/inactive, 4) in self-employment. Then, using a stock-flow consistency correction method based on Frazis et al. (2005), we can obtain the share of individuals making the transition from one status to another, given that she/he was in another status a quarter before – an estimate of the probability of this transition taking place.

Table 3: Transitions to and from self-employment (15-64 year olds, calculated from LFS panel microdata with stock-flow consistency)

	Salaried employment	Unemployment	Inactivity	Self-employment
<i>2007 Q1</i>				
From self-employed	0.92	0.34	1.14	97.35
To self-employed	0.12	0.18	0.08	-
<i>2009 Q1</i>				
From self-employed	0.52	0.35	0.76	98.25
To self-employed	0.36	0.71	0.23	-
<i>2010 Q1</i>				
From self-employed	0.54	1.05	0.83	97.48
To self-employed	0.12	0.14	0.08	-

Extracts from the estimated transition matrices are shown in Table 3. Rows labelled ‘from’ are the probabilities of a self-employed person making the transition to a different state while those labelled with ‘to’ are the probabilities of a person in a given state (see column headers) in the previous quarter (Q4 of 2006, 2008 and 2009, respectively) entering self-employment. It was already explained in the Introduction that the share of the self-employed was relatively stable over the previous years at around 7 % of the population. Table 3 provides two important pieces of additional information. Firstly, stability of the self-employed status has increased with the outbreak of the economic crisis, with the parallel decrease of transition probabilities into salaried employment and inactivity, but not unemployment. By 2010 stability decreased again, but now it is the chances of entering unemployment that has increased significantly. Secondly, the transition probabilities of entering self-employment have increased during the crisis from all other states. As opposed to the changes in outflow however, this appears to be a transitory phenomenon.

Even if we know very little about the job security of the self-employed, it appears that self-employment is a choice people make to gain more flexibility and use this even at the expense of security. Moreover, the anecdotal evidence that self-employment is used as a means to hide income from taxation, mostly by not paying wages and the attached payroll taxes, is widely accepted. Due to the nature of the problem, measuring this effect is difficult even if one does not want to account for the risks coming from less effective social security coverage. A recent paper, (Krekó and P. Kiss 2008) finds that the loss in tax income due to this abuse of self-employment status amounted to as much as 7 % of the total GDP in the 2005-2007 period. However, this strong result has to be treated with caution, as some of the authors' assumptions are quite strong and even implausible (such as the identical distribution of wages within salaried and self-employment, for which evidence has already been provided above).

In the light of the use and abuse of self-employment status, providing the self-employed with more security (such as a mandatory pension payment for farmers or social security payment requirements at a higher level than the person would choose voluntarily) at their own expense might interfere with their decision. Not only are the self-employed well-covered by social security, but if they are not, it is an option they themselves have chosen. At the same time, providing the protection at the expense of others might be controversial for the same reason, namely that the choice was made perhaps under pressure, but willingly. Because of this, flexicurity policies can protect the self-employed in a way they can protect others, that is through the provision of a competent unemployment benefits system and the availability of appropriate active labour-market programmes in order to provide employment security rather than job security. Given that Hungary spends very little on its PES (Scharle 2008), such a development would benefit not only the self-employed but all employees.

4. Conclusions

Self-employment is a form of employment that is found in Hungary at a similar rate as it is in the EU on average. Although evidence on this is scarce and mixed, it is often seen as much as a form of tax evasion as it is an accepted form of employment. Governmental policy does not promote self-employment either as a form of employment or as a way of avoiding unemployment but makes various types of support available to the self-employed. Among these there are micro-finance facilities as well as support provided to the unemployed wishing

to enter self-employment. The self-employed are well-covered by social security but if they want, can draw non-wage income from their enterprise even without hiding it, thus lowering effective social security contributions and the level of provision in some but not all cases. There are very few scientific studies on self-employment available in Hungary and no evaluations of policy instruments currently in use or having been used in the past years. In spite of this lack of information, the complexities of the business environment, high administrative burden, high costs of labour and the relative underdeveloped nature of active unemployment protection suggests that improvements in these areas would greatly benefit the self-employed as well.

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