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Hungary

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1. Introduction

Recent analysis (Olivier J. Blanchard, Mitali Das, and Hamid Faruquee 2010) has found that the impact of the economic crisis has affected Hungary's GDP to a similar extent as other emerging economies but the crisis has substantially affected unemployment in the country. The unemployment rate of young people was relatively high even before the crisis. The unemployment rate was around 38 % for the 15-19 year olds and around 18% for 20-24 year olds in the first quarter of 2008 (see Table 1 in the Annex to this document), as opposed to less than 9 % for the 30-44 age group (calculated from Hungarian Labour Force Survey (LFS) data). Even though the long-term unemployed have a share of only around 20 % among unemployed 15-19 year olds (calculated from Hungarian LFS), this quickly increases to above 30 % among 20-24 year olds and to 39 % among the 25-29 year olds in the same time period. Unemployment rates have risen considerably during the crisis and this increase was greatest for the 15-19 and the 25-29 year olds (see Table 6). Calculations show that this is so because these age groups contain the most entrants to the labour market (Bálint, Cseres-Gergely, Scharle, 2010).

The absolute number of young people in employment is relatively small as less than 6 % of 15-19 year olds in Hungary are not in full-time education, nor in employment or training, a figure the crisis did not change significantly. Still, an unemployment rate at double the comparable EU-15 and EU-27 average shows that young people are an especially vulnerable group in Hungary. As Table 2 shows, this is even more so for those with lower (ISCED 0-2) education. The unemployment rate of such youth is almost double that of those with higher (ISCED 3-4 and 5-6) education in all age groups, both before and during the crisis. Employment rates shrink as unemployment is increasing, and at the same time we can observe a substantial increase in the share of those working on temporary contracts among people aged below 30. Such effects can have lasting consequences in any environment, but there are important factors, most prominently in the education system, that renders the situation of disadvantaged young people particularly difficult. The high drop-out rate observed in secondary, especially vocational education and the low efficiency and market value of such education (Kertesi and Varga 2005) is perhaps the most prominent among these (see Table 5 for internationally comparable data on early school leaving).

2. Measures taken to promote youth employment

The labour market situation of young people shows all the difficulties the Hungarian labour market faces in general, but in a much more concentrated form. These problems include insufficient competencies developed in school-based education, low demand for low-skilled workers, difficulties to reconcile family- with working-life, discrimination against disadvantaged groups of the population, in particular against the Roma, and a weak capacity to adjust through wages and migration. As the above difficulties often go together, their effects are often mutually reinforcing and create barriers that are lasting over a long period in the life-cycle.

2.1.1 School education and training policies

2.1.2 Measures to prevent early school leaving and to guarantee that all young people acquire basic skills

Looking at official statistics (as in Table 2), one finds that the workforce of Hungary is well-

educated but has a surprisingly low employment rate. However, if one adjusts the ISCED categorisation to the empirically observed characteristics of lower vocational education, it appears that the situation is the opposite. The employment rate of lower educated workers is not that low, but their share in the total workforce in Hungary is disturbingly high (Kertesi and Varga 2005). This result is supported by studies using direct measures of skills levels, which are found to be relatively low, even controlling for education (Köllő 2009). This problem, as (Fazekas, Köllő, and Varga 2009) show, is rooted very deeply in the unsatisfactory transmission of basic skills. The problems that policymakers face in the area of youth employment are thus largely structural and this is perhaps one of the reasons why the initiatives in this area are not connected to the recent economic crisis.

Kertesi and Varga (2005) also show that the high share of low-educated people is greatly explained by a high rate of drop-outs, which make up around 20 % of every generation of young people entering the education system. Although there are measures within the existing education system to prevent drop-outs, and other problems, Fazekas, Köllő, and Varga (2009) argue for and lay out a framework for a reform of public education. They make it clear that only a comprehensive, competence-oriented reform of the entire system can be expected to yield measurable effects. Little policy action has taken place along these lines so far but a serious governmental intervention in the field of public education is on the political agenda today.¹

2.1.3 Measures to ensure that the vocational training system enables young people with only basic education to enter the labour market

Competence-based reforms have not taken place yet in vocational education either, but the government found the institutional structure of vocational education to be a serious problem. Based on this observation, a programme to create a network of so-called Regionally Integrated Vocational Education Centres (RIVEC) was launched to improve the technical quality of the training provided and also the facilities available. A recent evaluation of this effort (Setényi 2010) has found that although this development yielded interesting side effects, such as career guidance facilities for students, the programme was expensive and the basic problems were not solved. Another approach to the same problem is the recent introduction of early vocational education, which makes it possible to introduce specialised and workshop-based education right after primary education (in grade nine), as opposed to the previous rule of grade 10 for lower and grade 12-13 in the case of higher secondary vocational education. Recently, vocational education is on the political agenda again in its own right, with the aim of building a system with emphasis on cooperation with business in vocational education. Although details are not yet known, should this reform succeed, vocational education can be expected to provide more readily usable qualifications to students than it does at present.

2.1.4 Measures to promote the recognition of non-formal and informal learning

Qualifications and other abilities of young people are not given equal recognition in Hungary.

¹ Even though experts believe that the real problem is caused often by missing proper pre-school development, this deficiency is mostly framed as a problem of availability of day-care. Because of the structure of child-rearing related benefits and the availability of quality day-care, this is mostly a problem of disadvantaged families and is a great contributor to later educational problems. Given its strength, it is interesting that the National Youth Strategy – which also focuses on children – does not make this connection clear. Nevertheless, as this problem is not directly related to interventions in the youth labour market, it will not be discussed further in this article.

Formal, school-based qualifications are universally recognised internally and because Hungary joined the development of the European Qualifications Framework in 2008, it is anticipated that it will be recognised throughout the EU in the near future. This is however not so for non-formal and informal qualifications, even though good practices do exist in some areas (the ECDL certificate of computer literacy is an example of this). In order to change this situation, at least for higher education applicants and students, an initiative was launched by the Education Research and Development Institute in the beginning of 2010 in order to develop a Central System of Validation.

2.2 Labour market and employment-related policies and access to benefits

2.2.1 Active Labour Market Policies

In the spring of 2009, a network of Life Long Guidance (LLG) guides was established with 50 guides in 28 locations. Young people entering the labour market receive no targeted guidance or universally offered training besides this, but educational institutions do make an effort to help their students either through guidance (as already mentioned in the case of secondary education and RIVECs) or through the organisation of job fairs.

There is also a portfolio of complementary services available through the PES offices – even though young labour market entrants are not eligible for regular unemployment benefit. Besides the ones available to all registered unemployed (training, counselling and various forms of personal assistance) special support is offered in order to gain work experience. During the first 90 days of cooperation with the PES office, new entrants are offered training by the PES and also help in finding a job. If they are unsuccessful and 90 days have elapsed, an employer who offers the young person a job can be provided with support, set at 50-100 % of the wage bill, with a cap increasing with the level of education. In the case of non-profit organisations, social security contributions can also be covered.

2.2.2 Access to Social Security Benefits

A young person is considered a new market entrant by the PES if he or she cannot find a suitable job, is aged under 25 (with secondary education) or under 30 (with higher education), did not previously qualify for regular benefit² and is willing to cooperate with the PES. Those having less than 360 days counting towards eligibility are not entitled to regular unemployment benefit but have access to various PES services, as outlined above. Young people who are not new market entrants and have worked for at least 360 days are entitled to the regular PES services and benefits. Both the length of the benefit period and the sum of the benefit depends on the length of previous work experience and wages earned, respectively. Because of this, young people face lower benefits and a shorter provision period on average than older unemployed people. If the unemployed person is able to secure a job with at least four working hours a day before the expiry of the benefit period, and is employed at that point, a certain proportion of foregone benefit is payable to him or her in a lump sum. This is 80 % in the first 91 days and 30 % thereafter.

Although new entrants cannot claim jobseekers' benefit, they can turn to the municipalities for social assistance, if they qualify. Also, the local municipality might be able to offer a job in public work if they cannot find one on the regular labour market. Although these measures

² Also, those receiving maternity benefit, being incarcerated or serving as a soldier are not eligible.

provide elements of it, a comprehensive ‘Youth Guarantee’, as such, is not in operation in Hungary.

As the lower levels of experience of young people command lower wages, fixed costs and minimum wages have more effect on employment chances. In 2009, Tétéles EHO, a major fixed-cost element of social security contribution was eliminated and no longer has to be paid. The minimum wage stayed practically the same during the crisis, but even at this level it can still be an important hindrance in the employment of especially the less educated young people (Köllő 2001). At the same time, social security contributions were cut by 5 percentage points (from 32 to 27 %) from June 2009 for those earning below twice the minimum wage and for everyone from January 2010. Research shows that the wage-elasticity of demand is fairly high in Hungary (Kőrösi 2005); therefore these interventions should have had an effect on youth employment, albeit at a significant cost.

An indirect effect on youth employment comes from increased retention of older workers in the labour market. Having raised the retirement ages gradually from 1997 until 2009, the government is currently fighting early retirement to raise effective retirement ages. Although evidence is not clear regarding its effect, this otherwise welcome move could have put additional pressure on youth employment by keeping older workers in employment, thus allowing even less young people to enter the labour market than would otherwise have done.

2.2.3 Tax systems and labour market legislation

Young people entering the labour market are served by the so-called ‘START’ programme even if they do not become unemployed. It provides a subsidy on social security contributions to employers of young labour market entrants. As opposed to the regular 27 %, employers pay 10 and 20 % contributions in the first and the second period of the subsidy, respectively. The scheme is differentiated by the education level of the beneficiary, making both the first and the second period one year for those with below-higher education, while the same periods are nine and three months long for higher educated persons, respectively. Although the START programme has not yet been evaluated, anecdotal evidence shows that the deadweight loss attached to it can be substantial. Firstly, it is badly targeted, as higher education graduates particularly do not need its support. Secondly, its availability is built in to the expectations of both employers and young potential employees by now: some job applicants are accepted only if they have a START card. Despite these potential problems and the fact that the revision of the START programme is scheduled to be completed soon, the government did not change the scheme because of the onset of the economic crisis.

As opposed to subsidies to hire young people for a job, creating a job is more difficult, mostly due to the high administrative burden. In the case of temporary work, this was targeted by introducing various forms of simplified administration, but none of these have yet matured. Similar to other fixed costs, the administrative burden hits lower-paid and part-time work the hardest. Direct subsidies to create such jobs are rare and underfunded: one such example was the ‘First employee’ programme for SMEs and self-employed employers to hire their first employee (this small initiative was launched in 2008 with a budget of an equivalent to EUR 1.5 million). Support for the young to become self-employed is not targeted at them, is weak and is available mostly from the PES, apart from a few NGOs offering guidance. The same is true for micro-finance facilities. These are practically nonexistent in Hungary, the only serious attempt being that of the ‘Way out programme’ backed by the Polgár Foundation and the

Raiffeisen Bank, which started up recently. This initiative is however not targeted at young people in general but at groups of individuals living in deep poverty.

2.2.4 Mobility of young people

The often very limiting circumstances for youth employment show a great deal of geographic variation, as there are pockets of very high youth unemployment and also areas with much lower values (average unemployment rates on a regional scale were ranging between 4.6 to 13.4 % in 2008). Still, migration among young people is very limited and especially in the case of the low educated (Cséres-Gergely 2005), which can be attributed to various factors, including the rigidity of the housing market. Rental housing availability is limited in Hungary and social housing is non-existent. This, along with the value of property close to zero in disadvantaged areas creates a serious force for exclusion and make mobility costs prohibitive for those most in need of moving to more promising labour markets (Gerőházi, Hegedűs, and Somogyi 2010). The costly building of highways did not have a sizeable impact on employment (Németh 2005) and difficulties with long-distance public transportation make the situation even worse. Even though employers are required to pay for the costs of commuting if workers are required to cross settlement borders, such costs are likely to affect wages as well. There is no targeted support for commuting for young people but the PES offers such support to the employer of any eligible registered unemployed person.

2.3 Addressing problematic features of youth employment

Because of its roots in severe problems of the education system, youth employment in Hungary is facing specific difficulties. The Hungarian Parliament adopted the Nemzeti Ifjúsági Stratégia, NIS (National Youth Strategy) in 2009 (Magyar Köztársaság 2009) providing a comprehensive framework for approaching the problems of young people, including employment-related problems. It observes, in accordance with a number of research results, that activity of young people is low compared to the EU average, with a share of atypically employed and entrepreneurs that is also low. Because of this, even though difficulties associated with such forms of employment exist, they constitute a minor problem. Also, low wages can lead to in-work poverty, but in light of the severe employment situation, some find the minimum wage a barrier to increasing the employment rate of the lower educated, including young people (Köllő 2001). The NIS acknowledges that employment difficulties are deeply rooted in education and this creates serious differences in opportunities within society. The education system might not function well, but it is among the prime hindrances to social mobility (Róbert 2005). Calculations from the LFS (2008, first quarter) show that the unemployed aged under 25 are twice as likely to have somebody else unemployed in the family than those not unemployed (20.6 % as opposed to 9.5 %). Given the high prevalence of low education levels, this situation was rather severe among the Roma in the 1990s (Kertesi 1995) and is perhaps even more so today.

Unemployment of marginalised groups is targeted by active measures – such as the measure promoting self-employment among the unemployed which treats disadvantaged people as a main target group – but these are not substantial enough to combat the problems at hand. Although the reform of the public education system has not yet begun, a major project was launched in a special area to change the ethnically segregated nature of primary schools in order to help Roma students learn in an integrated and better quality environment. Although a methodologically sound evaluation concluded (Kézdi and Surányi 2008) that the project was

successful, de-segregation appears to be unpopular among many, the reason for which has not yet been fully uncovered.

2.4 Roles of the labour market actors

The action plan of the NIS (adopted in January 2010³) is more of a collection of already existing measures, rather than a new coherent programme. It sets the scene clearly and is a comprehensive collection of measures, focusing attention and making the internal coherence of policy, or the lack of it, clear. Supporting young people to better perform on the labour market is a major goal and thus the representative of the responsible ministry is a member of the inter-governmental Ifjúsági Koordinációs Bizottság, IKB (Youth Coordination Committee), formed in order to enable the steps described in the action plan to be carried out. Consulting members include representatives of specialised governmental institutions, such as the PES and the Institute for Social Affairs and Labour, among others. Apart from membership in the IKB, these are the institutions that work with youth employment matters. Their work is coordinated at the national level and governed by acts and regulations specific to the given ministry as well as by the NIS and the action plan attached to it. The new, coordinated operation has been in place only for a few months and thus its working has not yet been tested, but because the governmental structure was substantially reorganised, it is to be seen if it remains in place. Past experience shows, however, that coordination and facilitating the cooperation of different areas is necessary to achieve timely and adequate answers in the most pressing problem areas. A prime example for this is the (lack of) reform of public education and vocational education, in particular.

The role of profit and non-profit NGOs is limited in dealing with youth employment issues. NGOs do exist and market providers operate job-search services and offer jobs for young people. Private employers follow the incentives they face and these do not induce large investment in young employees. When offered economically sensible possibilities, they take advantage of them, but when the administrative burden is too high (as was the case of schemes supporting outplacement during the crisis), take-up is low. A general means of cooperation between the private sector and the government thus does not exist, but this might change in the near future. The new government in place from 2010 is planning to redesign the system of vocational education, with emphasis on apprenticeships and company-based vocational education. Such a change might increase the interest of firms in the education of young people through increased control on their development and thus make them more involved in providing training and job opportunities.

European experience shows that the role of the Public Employment Service could be substantial in supporting the labour market integration of vulnerable groups including young people (Card, Kluve, and Weber 2010). Unfortunately policymakers do not seem to attach great weight to this possibility in Hungary and its role is sometimes perceived as being similar to that of private job search companies. The approach to the PES during the crisis reflects a similar scepticism. Whilst it was assigned the extra task of providing administrative and also professional support to a large scale public works programme (Pathway to Work) which started at the beginning of 2009, involving all long-time unemployed on social benefit, it did not receive extra funding in either 2009 or 2010. The modernisation of the PES is an ongoing

³ Government decree number 1012/2010. (I. 22.)

process since 2002, with an investment in the order of around EUR 70 million, thus far. There were important and apparently effective steps taken in many areas, but an evaluation of this process has found that both preparation and monitoring has lacked sufficiently evidence-based analysis (Cseres-Gergely and Scharle, 2010). Even though PES services are being used, their potential is not always recognised, for which both the weak overall employment outcome and the lack of in-depth evaluation of these policies could be responsible.

3. Conclusions

Hungary has serious employment problems to fight and because young people are among the more vulnerable groups of society, they need more help than more senior workers. Active and passive labour-market measures are in place to help unemployed young people to find a job but we do not know much about the effectiveness of these. Although tuning ALMPs to be effective is an important task, research shows that the core employment problem stems from deficiencies of public primary education. Also, the internationally high level of administrative burden and cost of employment has the largest impact on young people, who are easier to dismiss and are inexperienced.

Because the root cause of the employment problem is not directly related to the labour market, it is easily overlooked. ALMPS, the costs of employment and deficiencies of public primary and vocational education all have to be addressed in order for a policy targeting youth employment to be effective.

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Annex

Table 1: YOUTH EMPLOYMENT / UNEMPLOYMENT TRENDS (Q1 data)									
Data	Age group 15-19			Age group 20-24			Age group 25-29		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Employment rate (%)	2.7	1.9	1.6	35.7	32.4	32.9	71.5	68.5	64.6
Unemployment rate (%)	38.1	53.0	51.2	18.4	22.7	26.2	8.8	11.3	16.2
Long-term unemployment as a % of unemployed	-	(21.4)	(33.9)	33.6	28.5	35.7	39.0	38.6	42.6
Youth unemployment to population ratio	1.7	2.1	1.6	8.0	9.5	11.6	6.9	8.7	12.5

Source: Eurostat, Labour Force Survey

- : Data not available

Data in brackets not reliable due to small sample size.

Data non-seasonally adjusted

Table 2: YOUTH UNEMPLOYMENT TRENDS (Q1 data, %)						
Data	Age group 15-24		Age group 20-24		Age group 25-29	
	2009	2010	2009	2010	2009	2010
Unemployment for the low-skilled (ISCED 0-2)	45.5	46.1	44.2	43.0	33.0	40.5
Unemployment for the medium-skilled (ISCED 3-4)	21.3	24.2	20.1	23.6	10.7	16.1
Unemployment for the high skilled (ISCED 5-6)	16.4	18.2	16.4	18.2	5.6	8.6

Source: Eurostat, Labour Force Survey. Data non-seasonally adjusted

Table 3: YOUTH TEMPORARY CONTRACTS (% OF EMPLOYEES) (Annual data)			
Data	Age group 15-19	Age group 20-24	Age group 25-29
	2009	2009	2009
Temporary work as a % of employment	35.3	19.7	10.9

Source: Eurostat, Labour Force Survey. Data non-seasonally adjusted

Table 4: NEITHER IN EMPLOYMENT NOR IN ANY EDUCATION OR TRAINING (NEET) (Annual data)		
Data	Age group 15-19	Age group 20-24
	2008	2008
NEET rate (% of the age group) (annual averages)	5.5	17.3

Source: Eurostat, EU Labour Force Survey, Annual averages

Table 5: EARLY SCHOOL LEAVERS* (Annual data)		
Data	All ages (18-24)	
	2008	2009
Early school leavers (% of the age group) (annual averages)	12.0	11.4

Source: Eurostat, Labour Force Survey

* Percentage of the population aged 18-24 having attained at most lower secondary education and not being involved in further education or training.

Table 6: DIFFERENCE IN YOUTH UNEMPLOYMENT RATE BETWEEN Q4-2009 AND Q4-2007		
Data	Age group 15-19	Age group 15-24
Difference in youth unemployment rate between Q4-2009 and Q4-2007	13.0	8.5

Source: Eurostat, Labour Force Survey. Data non-seasonally adjusted