

# CHARACTERISTICS OF THE HUNGARIAN AND ROMANIAN LABOUR MARKET

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**ABSTRACT.** *After the fall of communism serious changes occurred in the field of employment in the post-communist countries. These changes happened simultaneously with significant turns in the European Union's labour market and employment strategies. The accession into the Union meant both a chance and a challenge for the actors on the labour market in the transformational countries, because they had to make great changes within a short time in a socioeconomic environment where the relations on the labour market had been extremely rigid. This paper aims to describe this process through the example of Hungary and Romania.*

**Keywords:** *labour market, employment rate, social security, crisis, the European Union statistics*

## **The institutional changes of employment in the transition**

The fall of communism brought drastic and dramatic changes in the employment of the former Eastern bloc countries. The rigid employment model of industrial societies had had strong structural and ideological support in the centralized economies that dominated the Eastern part of the continent (Szabó 2004:18). The reason for it was in close connection with the operation of the shortage economy. There was no need for the actors on the labour market to make flexible adaptations, because the consumers bought anything, so production patterns became set for long periods. Full employment and social security were constitutional rights declared by the state for which individuals did not have to work and fight for. The result of this was overemployment and unemployment within company's gates.

At the beginning of the transition period after the fall of communism those changes that had taken place for decades in the developed countries

happened very quickly, during a few years. First there was a significant drop in employment and with this the until then unknown unemployment and social insecurity entered the scene. In the surviving and newly-formed companies working hours and work intensity significantly increased compared to previous experiences. Employees had to abandon the illusion of full, unconditional and life-long employment, and they had to accept the changed demands of the labour market, the instability that came with this, and contingent employment.<sup>1</sup> Further challenges were the changes in the nature of work and structure of jobs that needed adaptable, versatile labour force (Szabó 2004).<sup>2</sup> The situation was made even worse as in the aspiring countries these processes were connected with and strengthened by some other products of the fall of communism, such as the great technological change, which was rather a pressure than the consequence of organic development.

### **Characteristics and transformation of the employment pattern**

The employment pattern of industrial society has now been replaced by a new model of employment that is radically different from the previous one, and which can compensate for the limited resources and the effect of the saturation of the markets. The model and its changes significantly affect the conditions of economic growth, the developments on the labour market, and competitiveness.

### **The post-industrial employment pattern**

The appearance of the new employment model is the consequence of the changes in the world's economy. The resources of extensive growth are running out, the extension of markets does not follow mass production. The information revolution and acting on the opportunities created by the information technologies are almost impossible within the framework of the former model. The spread of the new employment model is helped by the world economy and the globalization of competition. The place of material resources is taken by the dominance of knowledge and information. A new notion emerges: knowledge-based economy. In the rapidly changing economic and business environment risk multiplies, and it becomes crucial in the life of companies if they have a chance to reverse their originally irreversible investments (Szabó-Négyesi 2004). This reversibility is unimaginable in the framework of the earlier model. The precondition of reversibility is the flexibility of the labour market, instead of rigidity, and the developed state of the inner labour market within the company.

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<sup>1</sup> Contingent work: the individual has neither explicit nor implicit contract for long-term employment. Definition of the Bureau of Labor Statistics from 1989.

<sup>2</sup> Versatile employee: they treat their own knowledge capital as a sort of investment portfolio and change it continually (based on Szabó 2004).

It is also important what explicit and implicit liabilities companies have. The former increases rigidity (e.g. lump-sum settlement), while the latter can be regarded as a moral commitment (Foote-Folta 2002).

The essential feature of the new employment pattern is the creation of a flexible labour market with adaptable employment forms, which literature calls atypical and contingent employment.

### **The transformation crisis and its consequences**

An important aspect of transformation is that some special features stemming from the difference of historical and cultural traditions showed up quite emphatically, while the legacy of the previous system also remained strong for various periods of time. The countries involved had to at the same time transform their economies completely and to build up a state that would meet the requirements of the new conditions. They had to set up a democratic, law-governed state, and its institutional and structural framework. They set out to do this with the dominance of state ownership, and market coordination was also lacking. As regards this János Kornai has proven that the recession in connection with the transformation of the Soviet model had a different content than crises generally have. This transformational recession or crisis (Kornai 1993:571) is the price of the fall of communism and of stepping onto the path of durable growth, the cost of transformation that has to be paid. Despite the fact that for the transforming countries there were no “proven recipes”, the particular countries – although running different courses – have achieved EU membership.

Table 1  
Some important statistics about the Visegrád Four and Romania, 2006

Country	Area thousand km <sup>2</sup>	Mid-year population, million persons	Population density persons/km <sup>2</sup>	GDP on consumer power parity		Change in volume of GDP	Agriculture Percent age of GDP
				GDP, PPS/person on €	EU average=100		
Czech Rep.	78,9	10,27	130	17100	76,3	6,4	2,6
Hungary	93,0	10,07	108	14400	64,3	3,9	4,3
Poland	312,7	38,14	122	11500	51,3	6,1	4,4
Slovakia	49,0	5,39	110	13600	60,7	8,3	4,0
Romania	238,4	21,59	91	7900	35,3	7,7	9,1

Source:

[http://portal.ksh.hu/portal/page?\\_pageid=37.645624&\\_dad=portal&\\_schema=PORTAL](http://portal.ksh.hu/portal/page?_pageid=37.645624&_dad=portal&_schema=PORTAL), and Hungarian Statistical Yearbook 2006

However, accession does not mean that their different macroeconomic indicators show similar performance, as in the developed countries of Europe, so convergence is not yet complete.

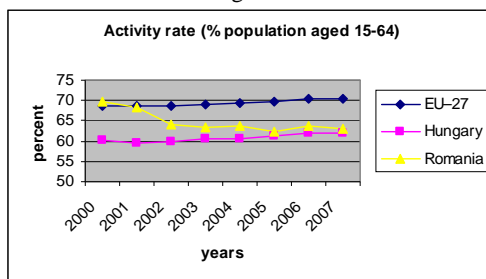
In this situation it can be especially interesting how human resources in the particular countries can cope, regenerate and convert their knowledge and labour.

## The labour market in Hungary and Romania in comparison with EU figures

### The activity rate

The activity rate in the 15-64 age group in the EU-27 countries in 2007 was 70.5%; this figure has slowly been rising from the beginning of the millenium, when it was 68.5%. Two other Visegrád countries that joined the EU together with Hungary, the Czech Republic and Slovakia almost reaches this figure (69.9 and 68.3%). The rate is extremely low in Hungary, in 2007 it was 61.9%, which means 4,209 thousand active persons on the labour market. Since it only means a one percent increase to 2000, it is the second lowest rate in the EU-27. This low activity is a dragging problem of the Hungarian economy, and it also means an ever increasing burden when we take into account the high proportion of inactive and out-of-work population that needs to be supported. The activity rates of the Romanian labour market has shown a continuous decrease since 2000, as opposed to the Hungarian data. The then 69.6% activity rate, which was higher than the EU average, has dropped back to 63% by now, and this means 9,483 thousand persons. In the EU-27 ranking this is the fourth lowest rate.

Figure 1



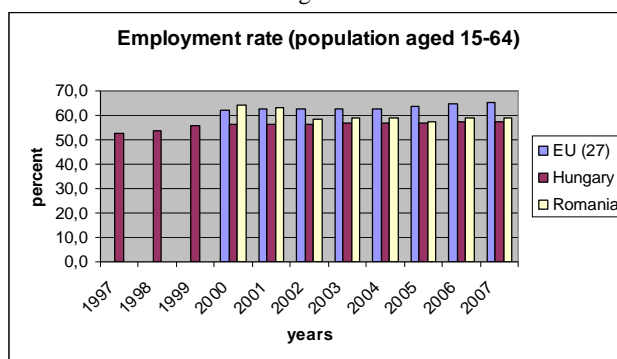
Source: <http://epp.eurostat.cec.eu.int>

### The employment-rate

A central issue in the whole paper is the problem of how to increase employment. The employment in the EU-15 hit the bottom in 1994, when the rate fell below 60% (59.8%). By 2005 they had managed to raise it by 5%, to 64.8%. Hungary, joining with the Visegrád countries in 2004, is in a backward position, as employment in 1996 was 52.1%, which it managed to raise to 57.3%

by 2007, when the number of employees were 3,897 thousand. It is worth noticing that still today employment is below the 1994 EU-15 bottom figure and that in the last 5 years it has almost been stagnating. The employment rate in Romania has exceeded the Hungarian figure in each year since the turn of the millenium, though the 2000 employment figure of 64.2% is only 58.5% in 2007, and with this the number of employees dropped to 8,843 thousand persons. Taking into account the data about the twenty-seven countries of the Union it is a noticeable fact that in 2007 the employment rate is the lowest, after Malta and Poland, in Hungary and Romania, and both countries are seriously lagging behind the 65.4% figure of the EU-27. The figure below shows the employment rate that generally describes the level of employment.

Figure 2



Source: <http://epp.eurostat.cec.eu.int>

In the last few years in almost all aspects there has been a less than 1% increase or drop in employment, so the data reflect well the problems of employment described above, the standstill of the Lisbon process, and the stagnating or decreasing employment.

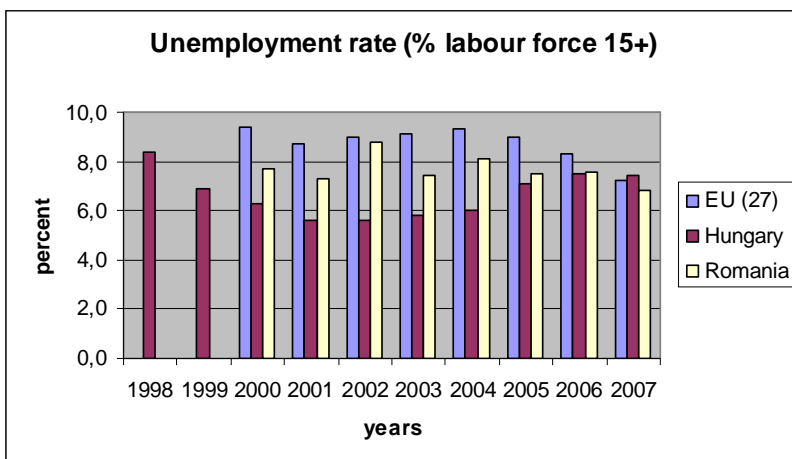
### The unemployment rate

By the mid-1990s the EU-15 had managed to squeeze their unemployment below the psychological threshold of 10%. Between 1997 and 2001 the rate fell even more, then until 2004 it rose again. Simultaneously, in the countries joining in 2004 unemployment continually rose in the Czech Republic until 2000, in Poland until 2002, and in Slovakia until 2001. It is rather peculiar and worth noticing that in the same period the rate in Hungary was continually falling, up until 2002, when it was 5.6%. A negative thing is, however, that from here it started to rise again, resulting in a 7.4% registered unemployment in 2007, meaning 312 thousand unemployed people. Romania's unemployment rate in 2007 is lower than both the Hungarian and EU figure, with 6.8%, 640 thousand

persons. As opposed to the rise in unemployment in Hungary in the last four years, here a continuous drop can be seen, which can be explained by the country's accession to the Union, and the growing investments that followed in the wake. The draining effect of the European labour markets that have opened up to the Romanian labour force is also significant.

As regards its absolute value the rate is permanently below the EU figure in the years examined, except for one year. The reason for this is that the period when unemployment rose drastically was the early and mid-1990s, and this transformation in employment happened within a few years. The other reason is not so positive, that being the high inactivity rate among the fit-for-work segment of the population (Laky 2004).

Figure 3



Source: <http://epp.eurostat.cec.eu.int>

### The spread of atypical employment in the examined countries

Both for extending employment and for flexibility on the labour market it is becoming more important that atypical employment patterns should gain ground. European Union statistics group the non-traditional employment forms according to three criteria: part-time workers, fixed-term contract employees, and self-employed people.

Table 2  
**Proportion of atypical employment in the European Union**

	Self-employed		Part-time employment		Fixed-term contracts	
	% total employment					
	1995	2005	1995	2005	1995	2005
EU-15	15,9	14,7	15,8	20,2	12,0	14,3
EU-25	16,6	15,6	16,0	18,4	11,7	14,5
Highest	45,8	43,7	37,4	46,1	35,2	33,3
	Greece	Romania	Netherlands	Netherlands	Spain	Spain
Lowest	5,6	4,8	4,8	2,1	5,4	2,4
	Sweden	Sweden	Greece	Bulgaria	Belgium	Romania
<b>Hungary</b>	<b>17,2</b>	<b>13,8</b>	<b>3,7</b>	<b>4,1</b>	<b>6,6</b>	<b>7,0</b>
<b>Romania</b>	<b>40,2</b>	<b>43,7</b>	<b>14,9</b>	<b>10,2</b>	<b>3,0</b>	<b>2,4</b>

Source:

[http://ec.europa.eu/employment\\_social/employment\\_analysis/eie/eie2006\\_key\\_en.pdf](http://ec.europa.eu/employment_social/employment_analysis/eie/eie2006_key_en.pdf)

Examining the data of the Hungarian and Romanian labour market about the non-traditional patterns and comparing them with the EU figures, we can see on the one hand obvious differences and on the other similar trends as well.

In the examined period neither in the EU-15 nor in the EU-25 was there significant change in the proportion of fixed-term employment, it being less than 15%. The Hungarian figure is stagnating below ten percent, and the Romanian figures are noticeably very low. As regards the proportion of part-time employment the lag of the examined countries is quite significant. In the EU-15 countries the rise is slower than expected, but continual: since 1995 the proportion of part-time employees increased from 15.8% to 20.2%. Self-employment in the examined period in the Union showed a slight decrease, stabilizing around 15%. In Hungary it dropped from 17.2% to 13.8% in the examined period, while in Romania in the European context the initially already high figure of 40.2% rose even further, which is possibly due to the still large share of agricultural employment.

## Conclusions

The labour market developments and macroindicators examined in this paper are explained by reasons rooted in past traditions on the one hand, while on the other they are crucially important for the future. The arrival of the postindustrial employment pattern and the transformation crisis, and then the overcoming of the crisis all meant challenges for the labour force, both in terms of quantity and quality. The notion of space and time relevant for work has changed, which puts the demand for the flexibility of labour to the front. For the sake of flexibility the social systems representing unsustainable burdens have to

be reformed on the one hand, while on the other employees need to be given new chances, that is jobs have to be created. One of the main ideas of the Lisbon process is that to achieve the desired objectives harmonized reforms are needed simultaneously on the different markets. Naturally this comes with sacrifices and political risks in the short run, and benefits will only show in the long run, but without them catching up with the Union is unimaginable. For the examined countries there was a much shorter time to reform the labour market than was usual in the European Union. The disintegration of stable labour relations within a few years, modernization and the simultaneous devaluation of much of previously acquired knowledge happened at the same time and brought socioeconomic tensions and controversies to the surface. Actors of the economy need to adapt, because technological development enforces its suitable form of employment, and the growth stemming from this can bring about social security in a modern sense, in the framework of a fairer redistributory system.

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