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Work Package 4 - In depth analysis of the implementation and development of policy innovations

Work Package 5 - Processes of policy learning in Hungary

Country report – Hungary

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<td>Labour market resilience, policy implementation, policy learning</td>
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PART ONE: In depth analysis of the implementation and development of policy innovations

1. Introduction

In Hungary the five selected innovative practices, policies were as follows: 1) Incentives for hiring disadvantaged workers – 2005; 2) START- Programmes 2005 -2014; 3) Model public work programme – 2005; 4) Pathway to Work (2009-2011 and from 2011 up to the present); 5) Labour Code (entered into force on 1 July 2012).

The first two policies fall in the proactive category, they were selected because in both cases one of the main target groups was the youth.

The third and fourth policies are the main milestones of the highly debated public work. Public work is a type of jobseekers’ activation. However they can have various interpretations: on the one hand they can be regarded as reactive measures (the target group has been the long term unemployed), and - depending on the approach – as human capital investment or income protection.

Although the declared aim of public work, according to the official rhetoric, is to lead back the long term unemployed to the primary labour market, it seldom meets this expectations, approximately 10-13% of people employed in public work get back to the labour market (Molnar et al 2014). It was assumed that what those long term unemployed need is only work experience, the recovery of old skills and this human capital investment would solve the problem.

The other interpretation is that public work programmes are actually income protection methods in a positive way when the unemployed are given more than the social benefit and in a negative way also when the job seeker (the unemployed official title in this case) is obliged to cooperate (practically to accept any offer) with the local authorities (municipality and employment service) otherwise they will be excluded from the social benefit system.

The fifth policy is an important example of the labour market regulation. In Hungary the new Labour Code entered into force in 1st of July 2012. There is a significant policy change in the new Labour Code, when compared to the previous Code. The new Code aims to adapt to the needs of the employment market, reflecting the trend for flexibility in EU labour regulation.

Presentation of the selected cases

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Goals</th>
<th>Target groups</th>
<th>Scope</th>
<th>Type of policy</th>
<th>Type of strategies</th>
<th>Expected or estimated impact on resilience</th>
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<tr>
<td>Incentives for hiring disadvantaged workers</td>
<td>to promote the employment of disadvantaged labour market groups, to support the 1. school leavers and the unemploye</td>
<td>1. school leavers and the unemploye</td>
<td>temporar</td>
<td>public governmenta</td>
<td>security</td>
<td>increasing labour demand</td>
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<td></td>
<td>d young who had been facing increasing difficulties on the</td>
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<td>y from January 2005 to September 2005</td>
<td>l, wage subsidy</td>
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<tr>
<td>START-Programmes</td>
<td>Model public work programme</td>
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<td>to promote the employment of disadvantaged labour market groups, to support the labour market reintegration of these groups without specific indicator</td>
<td>to address seasonal employment problems and to involve the most disadvantaged groups; the number of</td>
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<td>1. Start - young entrants</td>
<td>for the long term unemploye d, including regular social allowance recipients</td>
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<td>2. Start Plus-parents returning to work, long-term jobseekers</td>
<td>temporar y from Nov 2005 to Apr 2006</td>
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<td>3. Start Extra - older persons, persons with low education</td>
<td>public, governmental, municipal government, direct job creation</td>
<td></td>
<td></td>
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<td>4. Start Region - people claiming Stand-by Allowance</td>
<td>security</td>
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<td>temporar y from October 2005 to Decembe r 2013</td>
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labour market reintegration of these groups without specific indicator

labour market
2. those returning to work following a longer period of inactivity due to child care or nursing
3. the long-term-unemploye d aged 50 years and over

public, governmenta l; wage subsidy

Model public work programme
The selected innovations in Hungary addressed the issue of various social groups’ unemployment and the flexibility of the labour market. For the Hungarian labour market policy not only the high rate of unemployment but the long history of low employment rate - compared to the EU average – caused the problem to solve. The figures below show the labour market position of the main groups (the elderly, the youth and the long term unemployed) aimed by these programmes. The level of education is a decisive factor in labour market position and employment opportunities. The participation rate of those with low levels of education is well bellow the EU average and the level of unemployment is the highest within this group.

### 1.1 The background of the policies - the employment situation

**Figure 1 - Unemployment rates in different groups in Hungary 2000-2012**
In the case of youth unemployment, participation in education means a special situation, which can be approached by the distinction of youth unemployment rate and youth unemployment ratio.1

Figure 2 - Employment rates in different groups in Hungary 2000-2012

Figure 3 - Long-term unemployment (12 months or more) in different groups in Hungary as a percentage of the total unemployment 2000-2012

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Figure 4 – Youth unemployment EU and Hungary

The interpretation of youth unemployment situation also should take into consideration of the impact of educational attainment. The disadvantaged position in labour market with low educational level is a tendency in the general population².

Employment rate by educational attainment of the 25-64-year-old population in OECD countries, 2003 (%)

**Source**: Education at a Glance, 2005

According to Marton Meggyesi (2007), poor employment rate among those with low levels of educational attainment are due to the concomitant effect of several factors. This shortfall is not a consequence of the demography of the Hungarian workforce, nor of the relatively high wages of those with low levels of education, but is rather related to the generally low level of knowledge and competencies of the groups with a low educational attainment. Foreign direct investment creating new jobs has brought a level of technology that creates no demand for a labour force with low educational attainment. On the other hand, industries that could absorb workforce with lower educational attainment are missing in Hungary.

In the 15–24 years age group unemployment rate rose from 11.3% in 2001 to 19.4% in 2005. This is related to the difficulties of transition from education to the labour market, but another reason is that as a result of the expansion of education it is generally the low-achiever students that choose to enter the labour market.
Table 1 – Youth unemployment in Hungary between 2000 and 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>15–19-years old</th>
<th>20–24-years old</th>
<th>15–24-years old</th>
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<tr>
<td></td>
<td>'000 persons</td>
<td>Unemployment rate (%)</td>
<td>'000 persons</td>
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<tr>
<td>2000</td>
<td>18.4</td>
<td>25.5</td>
<td>50.3</td>
</tr>
<tr>
<td>2001</td>
<td>13.2</td>
<td>22.4</td>
<td>41.9</td>
</tr>
<tr>
<td>2002</td>
<td>11.7</td>
<td>27.1</td>
<td>44.8</td>
</tr>
<tr>
<td>2003</td>
<td>11.8</td>
<td>32.2</td>
<td>43.1</td>
</tr>
<tr>
<td>2004</td>
<td>12.0</td>
<td>34.9</td>
<td>43.9</td>
</tr>
<tr>
<td>2005</td>
<td>12.4</td>
<td>37.8</td>
<td>54.5</td>
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</table>

Source: Labour force survey 2005

1.2 The background of the policies - Institutions responsible for labour market policies

The organization directly responsible for the implementation of the employment policy programmes increased its capacity over the last decades. The number of PES (Public Employment Service) staff was 1728 in 1991 and increased to 4558 in 2010.

In the local offices of the actual PES (Public Employment Service and later under various names) there were not much changes compared to the state guidance level. The ministries responsible for labour related affairs (usually welfare, labour, economy and finance) changed dramatically in every four year when any new government came into power (until 2009 see the table summarizing changes at governmental level).³

The recent organisational changes⁴ also support the impression that because of the divided character of the Hungarian political party system the lack of the desirable stability of the political institutions and lack of trust makes impossible continuity in the field of any policies.

Within the scope of a sweeping public administration reform and pursuant to Government Decree 288/2010 (21 December) on Government Offices in Budapest and in the Counties, labour centres as organisational units of the Budapest and county government offices became integrated into the same as policy agencies. The comprehensive public administration reform continued in 2012. Its most important implication for the National Employment Service was the formation of the National Labour Office as of 1st January 2012 as a central entity consolidating the former Employment Office, the National Institute of Vocational and Adult Education and the National Occupational Safety and Labour Inspectorate. The decision to set up the National Labour Office was enacted in Government Decree 1413/2011 (1 December). With the new organisation a top-level coordination and professional governance entity was

³ BPDATA http://www.bpdata.eu/foglpol20/2012hut07_04
created employing 445 staff and integrating, in addition to an employment policy remit, formerly independent areas related to labour affairs, occupational safety and health, workplace hygiene, occupational medicine as well as to VET and adult education. Labour affairs, occupational safety and health, workplace hygiene and occupational medicine are assigned to the Occupational Safety and Labour Inspection Directorate as an organisational unit with an independent remit and competence. Subject to Government Decree 323/2011, VET and adult education responsibilities are also assigned to the NLO’s sphere of responsibilities, but in respect of these areas the NLO’s relevant organisational unit, the VET and Adult Education Directorate, did nor receive an independent remit and competence. The consolidation also entailed staff reductions: 29, 108 and 102 persons had to be laid off from the former Employment Office, the National Occupational Safety and Labour Inspectorate and the National Insitute of Vocational and Adult Education, respectively.

There was also a significant change in 2013. Local job centres as policy agencies, together with other local-level policy agencies, were assigned to the jurisdiction of district (and Budapest district) offices and thus it is in this new structure that the performance of employment and labour market-related tasks can take place at local level. The integration of local job centres began as of 1st January 2013. Occupational rehabilitation policy agencies, which used to be under the National Rehabilitation and Social Office, were integrated into the government office structure as of 1st January 2012. As a result, the rehabilitation policy agencies assumed rehabilitation responsibilities, earlier also within the remit of job centres, from the labour market organisation.

The permanent restructuring has not stopped and as of 1st January 2015 the National Labour Office was abolished.

1.3 The background of the policies - Industrial relations context

There are around 1.6 million companies in Hungary, but only 5,500 of them employ more than 49 employees. Thus the economy mainly consists of micro- and small sized enterprises. That means that classical industrial relation system is reduced to a relatively small number of companies in the private sector. Social dialogue in the public sector is far from being a bargaining system between equal partners as outcomes are strongly influenced by ministerial decrees.

Since 2010 the ruling government changed the system of tripartite industrial relations at cross-sectoral level and at company level. The government stopped bargaining and agreeing on minimum wages in the National Interest Reconciliation Council (OÉT). It established instead a larger consultative forum, the National Economic and Social Council (NGTT).

First, three national trade union confederations (MSZOSZ, LIGA and Munkástanácsok) consult three national employer organisations (ÁFEOSZ-KESZ, MGYOSZ and VOSZ) about the wage increase for the following year within the framework of the newly established

6 In more detail: http://www.eurofound.europa.eu/observatories/eurwork/comparative-information/national-contributions/hungary/hungary-industrial-relations-profile
Permanent Consultative Forum, between the private sector and the government (VKF). If they come to a consensus, their proposal is submitted to the government, which consults the NGTT, announces and codifies the agreement. However, there is no legal obligation for the government to consult the VKF and the social partners’ consultation power depends on the willingness of the government to consult.

Unions are losing bargaining power and their membership is shrinking. According to several sources, 10–16% of Hungarian employees (450,000–550,000 people) were trade union members in 2013 compared to more than one million a decade ago. Having lost the status of being negotiation partners in the OÉT has meant reduced financial benefits from the state budget. Social partner organisations under financial pressure have had to compete for the fewer resources available. As a result, in 2013 some unions started merger processes. However there is no debate within unions about how to find new sources of income, such as increasing membership.

1.4 The background of the policies – The Hungarian dependent market economy

After the regime change, Hungary, as other socialist countries, form a third variety of capitalism. The model of emergent or dependent market economies differ from the two ideal types of liberal and coordinated market economies in several aspects. Their comparative advantages lie in the low costs of labour and a skilled population with knowledge of medium level technology, but with an outdated technological structure (Hancké et al. 2007, Nölke and Vliegenthart 2009, Bohle and Greskovits 2012, Bluhm et al. 2014). Characterised by a huge volume of foreign direct investment (FDI) with the high presence of transnational corporations, these latters represent the central coordination mechanism in the model. Innovation activity is generally low, and it is usually coming through transnational companies, via intrafirm transfer. Another characteristic of these countries is that the position of labour is weak given the threat of these companies to be relocated further east. Transnational companies would not accept high wages, high union density, or powerful collective agreements. This way, countries with a state socialist past can be considered as a mixture of liberal and coordinated market economies. Industrial relations are weak, with an especially low unionized workforce in Hungary; managers have a great autonomy in the firm-employee relations which are liberal characteristics (Hancké et al. 2007). On the other hand, the inclusion of firms in the system of vocational trainings (although with a weak link between education and employers), and the fact that corporate governance rely on large banks (instead of the stock market) are characteristics of coordinated market economies. Post-socialist market economies can be characterized by a double-dependence: FDI on the one hand and the state on the other frame the space of manoeuvring for the economic actors.

1.5 The background of the policies - The Hungarian welfare state

The welfare system of Hungary is a fusion of several features as the pre-communist heritage of some kind of bismarckian social insurance system followed by the communist universalism and egalitarianism that transformed into a market-based liberal system after the
transition. State-socialism couldn’t achieve the goal of a classless society, it produced instead new forms of social differences, lead to lower social mobility and limited work performance in absence of incentives leading to stagnating/ regressing modernization. Social policy during the past regime concentrated on free healthcare, full employment, housing, public pensions and safety for those incapable to work through universal entitlement. These measures formed the basis of the ‘social contract’ (social welfare in exchange of democratic freedom), however, they were excessive and premature beyond the fiscal capacities of the state leading to high welfare dependency and low incentives to re-enter the labour market (Cerami 2006). After the transition, in order to deal with rising social inequalities the excessive welfare state was maintained: there remained a high support for redistributive policies, special privileges for determined social and professional groups and the persistence of clientelistic relations (Cerami 2006). In this Hungarian version of the “premature welfare state” welfare expenditures had an important weight starting from the late 1980’s (Kornai 1996). Nowadays, this system trying to avoid social conflicts ended in the emergence of a “bifurcated welfare state” with separated structures of services for the well-integrated and the marginalized groups of society. The social exclusion of the weakest groups (especially the marginalized Roma population) is ever more significant and their distance from the well-integrated members of the society ever more important, also sustained by the segregationist local level of welfare assistance (Szalai 2013). Szalai claims that ”… the described turn away from universalism does not favour multiculturalism either. After all, rapid territorial segregation, the rise of the welfare ghettos, and the lack of parliamentary representation of the Roma minority work strongly against a dialogue that should inform the shaping of the political and legal institutions and should safeguard their filling with multicultural contents. Instead, the current trends point to the opposite direction: they indicate that ethnic/racial discrimination – both, institutional and personal – have grown to set the stage for the conflictuous daily reality of multi-ethnic cohabitation.” (p 13).

1.6 The background of the policies - General political-administrative structure

    Hungary is a unitary, parliamentary republic. The executive branch is divided into three levels. The Hungarian central government subsystem is divided into ministries, the number of which ranged between 12 and 18 between 1990 and 2010. In 2010 the Cabinet implemented far-reaching structural changes, as a result of which eight integrated “superministries” emerged. At the same time the Prime Minister’s Office (PMO) was re-structured into a Ministry of Public Administration and Justice with a broader task portfolio. Ministries are chiefly responsible for policy-making while most of the implementation tasks – especially those with a territorial dimension – are carried out by agencies. At the second, sub-ministerial level one finds a number of agencies. Between 1990 and 2006 the proliferation of these agencies was a constant trend in Hungary. From 2006 on, and even more so after 2010, a new administrative policy emerged. This spectacular change was driven

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7 According to another categorization it belongs to the groups still in the phase of definition, namely: to the Model of Post-Communist Europe, http://www.learneurope.eu/index.php?cID=300
8 For this section the following source was used: Hajnal, György and Kovacs, Eva (2013): Coordination practice “GOVERNMENT WINDOWS”: ONE-STOP SHOPS FOR ADMINISTRATIVE SERVICES IN HUNGARY. (This coordination practice is a result of research within COCOPS Work Package 5: The Governance of Social Cohesion: Innovative Coordination Practices in Public Management, http://www.cocops.eu/)
by a quest to enhance the political control of administrative apparatuses – this time, unlike previous attempts, backed by a two-third majority. Agencies’ regional branches have been integrated to the 20 county-level “Government Offices”, controlled directly by the government and headed by political appointees (MPs, political state secretaries etc.).

At the third level of administration one finds the local governments. The local government system is a two-tier one involving, at the upper tier, nineteen counties and the capital city Budapest and, at the lower, municipal tier almost 3200 local governments governed by elected councils. Local governments are responsible for a broad set of public-service-provision tasks, including child care, education, health and local physical-infrastructure services. According to the new Local Government Act (in effect from 2013) local governments’ scope of duties and competencies will be dramatically reduced.

The broad-scope structural changes of the past two years can best be understood in a broader framework characterised by a decisive and successful attempt to strengthen hierarchical and political control in all spheres and segments of state organisations. This series of measures – to a significant extent necessitating fundamental constitutional changes and involving the adoption by the governing parties with a two-third majority, in December 2011, an entirely new constitution – involve a range of elements extending beyond the executive branch.

The Cabinet has implemented the centralisation not only on the governmental structural level, but the recruitment and hiring process of the central state-administrative apparatus is also under strict vertical control. Recruitment is strictly controlled by the Ministry of Public Administration and Justice; it is entitled to veto candidates for any central government managerial positions. Moreover, the new civil service regulation assesses loyalty as an employment requirement for every civil servant. Being contravened of it might result in dismissal, which practically means that, not only de facto but also de jure, the career system is replaced by a spoils system.

### 1.7 The background of the policies - Political, institutional setting

The political rules of conduct in Hungary during the examined period is determined by extreme political polarization amongst voters and the elite as well, according to political scientists⁹. Hungarian politics is characterized not simply by strong political-ideological polarization but from the very beginning has lacked the underlying consensus necessary for the efficient functioning of democracy. The notion of a lack of an underlying consensus is supported by the delegitimizing strategy of the parties. As part of an underlying consensus, the competing parties should recognize the legitimacy of one another. Contrary to this, the Hungarian right has called into question the national commitment of the left and the left the democratic commitment of the right, from the beginning. The lack of an underlying consensus also explains why, instead of debates about public policy, the focus of Hungarian politics has consisted of symbolic (legitimizing and exclusionary) discourses. The situation is worsened by the alarming loss of trust in political institutions (parties, Parliament, the government) (Boda–Medve–Bálint 2010)¹⁰.

Regarding the cause of the ideological polarization of Hungarian politics, some author (eg. Körösényi, 2013) claims that it is endogenous, meaning it relates to the strategies and actions

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of political actors, it is also assumed that the growing polarization itself has not undermined political stability, instead, it weakens the accountability of incumbents. The weakening effect can be demonstrable in different fields: psychological and information, moral, public policy, patronage and the delegitimizing effect. Political polarization in Hungary (A) in the area of traditional government policies – where the classic majority rule of making applies – reduces the efficiency of public policy by making it “zigzag”, while (B) in areas of public policy covered by the division of powers it has a “conservative”, status quo-maintaining effect, and (C) in several other areas it leads to strategic disagreement. As a consequence of these effects, the efficiency and ability to renew of the affected public policies might weaken.

In the case of a state of growing polarization – the public policy starts “zig-zagging” over successive government cycles and it reduces the efficiency of public policy in various ways: 1) Public policy diverges from the median position that represents the social optimum. This is because the incumbent party will not pursue a centrist public policy – will not adjust to the median position – as its own voters would not identify with it, and the number of centrist voters has decreased. 2) The frequent change of direction reduces the efficiency of public policy, also in the sense that frequent changes of direction or regime in public policy create great social costs. The costs of the introduction of a new direction of public policy have to be paid for, while, because of the short life-span of the public policy regime – changing with each government cycle – its benefits often fail to materialize. Affected areas of public policy in Hungary in the previous two decades include, for example, public and higher education, health-care, social and income policy, drug and criminal policy. 3) Deadlocks leading to indecision become more common, while public policy renewals (reforms) get sidetracked. As, in a system based on the division of power, successful public policy decisions require wide consensus – or at least the neutralization of veto points –, polarization increases the motivation of the opposing side to block government policy in every possible way. In the Hungarian governmental system one effective instrument of public policy veto was the activation of the mechanism of judicial review. In the 1990s, as a consequence of laws requiring a two-thirds majority and the lack of consensus due to political polarization, the role of the Constitutional Court (rather than Parliament) increased in interpreting the Constitution, and through that, in constitution- and law-making. Another possible veto-instrument was referendum by popular initiative. 4) Stronger polarization offers more incentive to create strategic disagreement and practice shifting responsibility (the blame game), which in turn has a negative effect on the political bargaining process.

1.8 The background of the policies - Coordination discourse

On a general level, in the post-transition period three important milestones can be identified in relation to the structural features of central government coordination.

The first milestone is the creation of the Council of Permanent State Secretaries in 1990. Permanent State Secretaries were, from 1990 onwards, the highest-ranking administrative officials in ministries. The Council of Permanent State Secretaries met once a week and discussed all and any items on the agenda of the next Cabinet Meeting. That is, no issue could be put on the Cabinet Meeting’s agenda without the prior consent of the Council.

The second milestone is the 1998 reform of the PMO involving a definitive strengthening of the PMO’s role and position vis-à-vis the ministries. The core of this change was the creation of a structure mirroring the ministry structure within the PMO, whereby each mirror
department was entitled to examine/filter/reject initiatives coming from the respective ministry before it could get on the Cabinet’s agenda.

The third milestone was a set of closely interrelated measures introduced in early 2006. By and large, these measures were labelled as the “strengthening of political governance”. They included, among others, the following elements. (i) The abolition of the position of Permanent State Secretaries and the entire institution of Council of Permanent State Secretaries, and replacing it with a similar but more political structure, the Committee of State Secretaries. This body was staffed with deputy state secretaries and played a similar – but less powerful and undisputed – role than the Council had. (ii) The introduction of a procedure called “policy consultation” required each ministry to have its proposition approved by the PMO prior to the administrative consultation process. This involves a review and approval by the relevant PMO/Ministry of Public Administration and Justice staff. In 2010 the Cabinet re-introduced the pre-2006 arrangements of Permanent State Secretaries and the Council of Permanent State Secretaries.

Stepping away from the institutional framework and focusing on specific coordination problems, one of the focal – and most problematic – issues within the broader field of central government coordination continues to be the coordination of EU policies and the adoption of Hungary’s position on EU issues. In the period of the preparation for the EU accession (in 1996) the government decided to establish a “uni-polar” coordination structure for integration. The State Secretariat for Integration operated within the Ministry for Foreign Affairs. In 2005 the Cabinet transferred the responsibility for European affairs from the Ministry to the Office for European Affairs of the PMO but one year later an arrangement similar to the original one was restored. All in all, EU coordination remains an “enclave” within central government coordination – led by the Ministry for Foreign Affairs and having much less than a necessary day-to-day connection to all other fields of government.

Tripartite cooperation at national level has been a tradition since 1988 in Hungary although its form has changed several times. The current format was adopted in 2002 and called the National Interest Reconciliation Council (OÉT). The OÉT was the national forum for tripartite cooperation between workers’ and employers’ representatives and the government. The OÉT provided a framework for consultations among social partners on economic, social, employment and other labour-related laws, as well as on underlying policies and political priorities. It was also the main forum for discussion on economic and social issues that are of national relevance and interest for the main players in the world of work. Its competencies and rights were set out in detail in its statute, while some aspects of its work were governed by relevant laws, including the Labour Code, the Act on Employment Promotion, the Act on Vocational Training and the Act on Labour Protection. Social partners had a fundamental right to information, consultation and consent.

The present Hungarian government, a coalition of the Hungarian Civic Union (FIDESZ) and the Christian Democratic (KDNP) parties which came to power in May 2010, did not convene a meeting of OÉT until four months after it won the general election, in response to demands by employees and employers. Economy Minister György Matolcsy announced, on 30 May 2011, plans to replace OÉT with the National Economic and Social Council (NGTT) as of January 2012. The parliament passed the law establishing the NGTT on 4 July. The introduced new body, replaced the National Interest Reconciliation Council (OÉT). The NGTT includes
representatives of employers, workers, chambers of commerce, and churches, but it can only propose changes. Unions and employers were against this.\textsuperscript{11}

The decision is similar to that of Orban’s first administration in 1999 when the reconciliation forum became a so-called labour council, decreasing the tasks and power of the tripartite body. Decisions, including setting the minimum wage, were made by the government without consulting the trade unions. In 2002 when a coalition of the Hungarian Socialist Party (MSZP) and the Hungarian Alliance of Free Democrats (SZDSZ) formed the government, social dialogue was once more opened up in the OÉT of the national industrial relations (and political) systems since the 1990s.

In general it can be said that from the 2010 election the governing party started from corporativism, using the traditional setting of the economic tripartism, and since the National Council for the Reconciliation was abolished in January 2011 and the trade unions are weak, trade union membership is relatively low, the system moved towards statism.

2. Analytic Description of the selected innovations

The main trends in Hungary in employment policy innovations. Between 2000 and 2012, employment policies mainly had a national focus, with no or few territorial differentiation – with the exception of a certain margin of manoeuvre of local labour offices and the experimental (pilot) projects of the OFA. Selective measures, on the other hand, were implemented targeting disadvantaged groups on the labour market such as low skilled work, new entrants, persons with disabilities, older employees with high risk of becoming unemployed, persons returning from parental leave, unemployed or people of Roma ethnic origin. Another special target group for policies were civil servants. Throughout this period the main objectives of policies were to help labour market integration or reintegration of unemployed, inactive and disadvantaged groups, create jobs, provide better services, lifelong learning or to increase the flexibility of labour market. These priorities have been similar before and after the economic crisis. The main intended outcomes were to increase participation in employment, to address problems of low wages, to reduce labour costs related to social security. The main tendency over the period seems to follow a liberalisation strategy (Obinger et al. 2012) with a decreasing social and employment protection in combination with workfare activation, especially since the increased importance of public work schemes starting from the 2009, together with the new labour code (in effect since 2012) that reduces employment protection. The majority of policy innovations related to labour market resilience and employment in the period of 2000-2013 took the form of new or reformed policy, new or reformed measure or new or reformed instruments with new strategy to reach similar objectives. These innovations were primarily destined to change the behaviour of actors such as employers or workers on the labour market or to change the institutional structure of the labour market by changing regulation or reforming institutions.

During the period 2000-2013, following international trends, more resources have been allocated to active labour market policies together with an increased proportion of personalized services within the programmes funded by the EU, and a more pronounced targeting on disadvantaged people. This way, active labour market measures dominate the

\textsuperscript{11} http://www.eurofound.europa.eu/observatories/eurwork/articles/working-conditions-industrial-relations/government-to-stop-consulting-unions-on-minimum-wage
studied innovations including measures for unemployed, inactive and disadvantaged groups as well as some measures for employers. Another important general tendency is the liberalisation process that happened on the Hungarian labour market through the 2000-2013 period including a severe shift to workfare approach mainly manifested in the increased role of public employment.

Many of the measures had the objective to increase participation on the labour market by leading inactive people back to the labour market and decreasing poverty this way. Nevertheless, no significant improvement occurred in terms of the employment figures or poverty indices (Albert 2013).

Overall, five trends in innovation were identified in terms of their content:
1. Activation/ job creation including measures focusing both the demand and supply side of the labour market (decreasing passive measures, increasing minimum wage, employment incentives, public employment)
2. Risk prevention measures
3. Increasing flexibility and reduction of employment protection
4. Immediate crisis measures
5. Re-organization of public administration

2.1 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 reintegration 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 were eligible for the subsidy if they employed 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 could be full-time as well as part-time,

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12 The description is based on Maria Frey’s report in the respective year’s volume of The Hungarian Labour Market Review and Analysis
however part-time employment should not be less than 4 hours per day. The subsidy was 50% of the social security contributions payable by the employer, and is reimbursed retrospectively. 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 were certain eligibility conditions. School leavers were 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.

**Paid internship employment status**

A new legal concept had been also 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.

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. 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).

2.2 The START Programme

With the Act CXXIII of 2004 various incentives were introduced that promoted the employment of school leavers as of January 2005. These included the paid internship and the 50% reduction of social security contributions that make the hiring of young people more attractive for employers. It turned out, however, that employers did not consider the level of support high enough. They also found the whole procedure overly bureaucratic, including the fact that the subsidy was reimbursed at the end of the 9-month period and that there was a requirement to maintain the employment relationship after that point. (MoEL-Ministry of Employment and Labour 2005/a)

START card

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 were young

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13 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.
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. 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 labour cost, including 29% social security contributions, 3% employers’ contribution and the fixed-sum health insurance contribution. The reduction of contributions could 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 could be taken up on the basis of the so-called START card issued by the tax authority. This card certified 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) were eligible to receive the card and use it for regular employment or paid internship. The START card could 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 was no obligation to maintain the employment relationship after the termination of the discount.

**START Plus and START Extra cards**

The Hungarian wage subsidy scheme which was first introduced in October 2005 for school leavers (START card) later was extended to various subgroups among the long term unemployed in July 2007. This quasi-voucher scheme offered a temporary reduction on payroll tax (social security contributions) to employers hiring the holder of the "voucher." The amount of the subsidy varies across eligible groups, all long-term unemployed are eligible for START plus, and START extra doubles the subsidy for a selected subgroup with multiple disadvantages, ie. for jobseekers above 50 and those who completed primary education only. Eligibility for START extra can thus be earned in two ways: by accumulating unemployment spells (for the uneducated) or by reaching 50 years of age (for the educated).

**START Bonus card**

Eligibility and the claims process for START bonus card was similar to those of previous Start schemes. To be eligible to claim a Start Bonus card individuals must: be registered as job seekers for at least three consecutive months leading up to their claim or 1) take up paid employment within a year (365 days) after claiming parental benefits or carer’s allowance. Or 2) take up paid employment after the first birthday of their child while still claiming child care allowance, and be out of work, and aged under the retirement age, and not be in possession of a valid Start, Start-plus or Start-extra card.
### Rules of the various START schemes at the time of introduction

<table>
<thead>
<tr>
<th>Name of the START scheme</th>
<th>Amount of subsidy (% of total wage cost)*</th>
<th>Ceiling on subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>START (young entrants) from Oct 2005- Dec 2013</td>
<td>1st year–14%</td>
<td>1.5x minimum wage (2x for the graduates)</td>
</tr>
<tr>
<td></td>
<td>2nd year - 7%</td>
<td></td>
</tr>
<tr>
<td>START PLUS (parents returning to work, long-term jobseekers) from July 2007- Dec 2013</td>
<td>1st year–14%</td>
<td>2x minimum wage</td>
</tr>
<tr>
<td></td>
<td>2nd year – 7%</td>
<td></td>
</tr>
<tr>
<td>START EXTRA (older persons, persons with low education) from July 2007- Dec 2013</td>
<td>1st year–25%</td>
<td>2x minimum wage</td>
</tr>
<tr>
<td></td>
<td>2nd year–14%</td>
<td></td>
</tr>
<tr>
<td>START BONUS (registered jobseekers for at least three months or persons take up paid employment within a year after claiming parental benefits or carer’s allowance, or –after the first birthday of their child while still claiming child care allowance) Jan 2012 – Dec 2013</td>
<td>The tax relief is 27% of the pre-tax wage and this can be applied to wages up to 150% of the minimum wage in the first year of employment</td>
<td>Employers can draw on the tax relief if the employment period is longer than 30 days and the working time is no less than four hours per day.</td>
</tr>
<tr>
<td>START REGION(^\text{14}) (people claiming Stand-by-Allowance)</td>
<td>fully exempt from social insurance contributions for 3 years with the condition that increases workforce</td>
<td></td>
</tr>
</tbody>
</table>

### The Start Region scheme

\(^\text{14}\) Introduced in the most disadvantaged small regions and localities in 2009.
The Start region programme is linked to the “Pathway to Work” programme. It was introduced on January 1, 2009. This extends the discounts of the Start Extra scheme to employers hiring people claiming Stand-by Allowance. If the worker comes from a disadvantaged locality, then his/her employer is fully exempt from social insurance contributions for 3 years with the condition that the hiring of the new disadvantaged worker increases the workforce of the company and this is maintained for the duration of the subsidy.

The subsidy was further extended in 2009 and replaced by a new scheme in 2012. The scheme has been administered by the tax authority who issue a plastic card to eligible persons which indicates the type and eligibility period of the subsidy. Cards were issued only if claimed, but the evaluation of claims was automatic, with no discretion or further conditions beyond age, education and long term unemployed status. This implies that there was no selection in the decision of who may receive the subsidy (prior to the hiring decision of the employer) as is often the case with wage subsidy schemes managed by the public employment service. Job centres have been actively encouraging job seekers to claim the card. The validity of the card and thus the period of eligibility starts on the day of issue. Jobseekers are therefore advised to claim the card immediately before starting in their job, so that their employer may be eligible for the maximum length of the subsidy. The timing of programme participation is thus as follows: the job seeker 1) registers at the job centre, 2) becomes eligible for a START card, 3) finds a job 4) applies for a START card, 4) enters the job, 5) ends the employment spell within the subsidised period or stays employed. The subsidy lasts for a maximum of two years, so that past programme-participation impacts can only be measured using data for 2009 or later.

Less than 2% of the card claims were declined by the tax authority, it seemed that most cards had been claimed once the job seekers had a job offer, as recommended by job centres. Data recorded by jobcentres also appears to confirm this: 82% of card holders were employed within 30 days of requesting a certificate at the job centre and another 7% were employed within 90 days.

The START schemes are different from traditional wage subsidies in a number of ways, the most important being administration and further obligations. Traditional subsidy schemes require the employers to submit an application at a regional PES office and to guarantee that they will employ the beneficiary for at least as long as the benefit was provided. Since the Start schemes do not pose such requirements, it was expected that their effect would be larger than that of the traditional wage subsidy.

16 The amended tax regulations in force from mid-2009 also reduced the general contribution rates payable by employers. The discounts given for disadvantaged workers were adjusted accordingly to keep their incentivising effect, from July 2009 the first year 7% was increased to 10, the 2nd year 14% was increased to 20 percent.
17 These data come from the digital data archive of the Public Employment Service, who were responsible for issuing a certificate to confirm that the jobseeker had the necessary unemployment record to qualify for the card. It should be noted however that these archive records cover less than half of all card claims, as job centres were not motivated to digitalise this information.
Number of card issued and persons employed by type of card, 2007-2014

<table>
<thead>
<tr>
<th></th>
<th>START PLUS</th>
<th>START EXTRA</th>
<th>START BONUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>number of cards issued</td>
<td>90 164</td>
<td>91 219</td>
<td>76 723</td>
</tr>
<tr>
<td>number of people</td>
<td>77 794</td>
<td>72957</td>
<td>637 67</td>
</tr>
<tr>
<td>employed</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>of which</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>man</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-24</td>
<td>3761</td>
<td>3801</td>
<td>3880</td>
</tr>
<tr>
<td>25-49</td>
<td>19707</td>
<td>16820</td>
<td>18330</td>
</tr>
<tr>
<td>50-54</td>
<td>238</td>
<td>9333</td>
<td>2769</td>
</tr>
<tr>
<td>55-64 years old</td>
<td>107</td>
<td>6795</td>
<td>2382</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>woman</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-24</td>
<td>5544</td>
<td>2777</td>
<td>4530</td>
</tr>
<tr>
<td>25-49</td>
<td>47807</td>
<td>14173</td>
<td>26131</td>
</tr>
<tr>
<td>50-54</td>
<td>432</td>
<td>12267</td>
<td>3439</td>
</tr>
<tr>
<td>55-64 years old</td>
<td>198</td>
<td>6991</td>
<td>2306</td>
</tr>
</tbody>
</table>

Source: Ministry of National Economy

Evaluation of the programme

The target values of the main success indicators were: the number of employed people and the number of people employed six month after the subsidized period expired. The target value was 170 000 persons and it was over-achived by 44 518 heads (which means 125%). Furthermore more than two-third of the persons involved in the programmes were employed six month after the subsidized period.

In another examination (Budapest Institute, 2014) was found that In the Start Plus and the Start Extra programmes (where there was no further hiring obligation imposed on the employer neither during the programme nor afterwards), 21-35 % of the recipients remained in the same job after the expiration date of the subsidy. 46-67 % of those who were followed for three years after the launch of the programme were still working after two years, and this ratio had not worsened by more than a few percentage points by the end of the third year.

Cseres-Gergely et al (2015) measured the impact of a wage subsidy for long term unemployed workers in Hungary, using administrative data. Results show a significant impact on the reemployment rate and wages of men aged over 50. The overall positive impact on employment is driven by the largest subgroup of those with lower secondary education. The evolution of job loss probabilities around the introduction of the programme suggests that the positive employment effect of the programme is not merely caused by substitution across various sub-groups of jobseekers. For women, the subsidy has no significant effect. A possible explanation is that older women are less likely to actively look for a job, which lowers the potential impact of any wage subsidy that is by design dependant on job search. The subsidy for jobseekers with at least secondary education and aged over 50 is cost effective for men,
even if the effect exponentially declines with age and considering short term benefits only. The overall efficiency of the programme could be improved by narrowing the target group to jobseekers with less than upper secondary education and possibly by supplementing it with incentives for job search, especially for women.

Evaluation on the programmes (Evaluation Yearbook, Hungary 2013, National Development Agency) claimed that the targeting of the reviewed programmes was planned adequately. The programmes aimed at disadvantaged individuals with unfavourable position in the labour market. According to former empirical research, the filtering conditions stated in the programmes (unqualified, longer-term unemployed, disabled individuals, etc.) covered well the disadvantaged job seekers. During implementation, the targeting of the complex programmes was shifted slightly towards younger and better educated job seekers. This could be the result of the self-selection of the participants and the selection practice of the offices, but the relative importance of these cannot be revealed on the basis of the available data.

This above mentioned swift characterized also the first START card; between the launch of the Start Programme for young people in October 2005 and the end of May, 2009 approximately 122,000 young people got the Start Card – 33,600 of these had higher education.

The strengths and weaknesses of policies to overcome barriers to employment when employer incentives and subsidies are used characterized the START card programme as well. The positive feature is that it encourages employers to take on young people, and in doing so, may help to change employers’ attitudes towards hiring young people. It enables participants to gain valuable work experience rather than be unemployed. Provides valuable working opportunities for young people, contribute to improving their confidence and tackle disengagement. However there is also risk of deadweight or displacement effects, as a significant share of employers would have hired the young person anyway. And as usual it can be exploited by some companies.

The START card has special position among the other START schemes, because of the financing background and of its consequences. According to expert opinion (Frey, 2010) with regard to the characteristics of young people employed with a StartCard, there is extremely limited information. An evaluation study would be necessary to establish how many young people would have found a job without the subsidy, or differently what is the deadweight effect of the scheme? So far the only available data suggest that 12–13% of the employers are public sector organisations. There is more detailed information on the characteristics of participants in the Start Plus and Start Extra schemes because these are both financed by the European Social Fund and it is a requirement to monitor these programmes and organise their on-going evaluation and employment impact assessment.

The START schemes spent 53,782 billion HUF (appr. 180 million EUR) between 2007 and 2014 on START Plus, Extra, and Bonus to ensure the reduction of social insurance and health contribution. The programme was carried out under Social Renewal Operational Programme (SROP), one of the priority axes of the SROP was: Improving employability, promoting entry

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18 As it was summarized regarding youth unemployment in an Eurofund (2012) study
19 http://palyazat.gov.hu/doc/357
to the labour. The interventions assigned to fulfill this task were: Development of the employment services and establishment of an integrated employment and social service system; Labour market activation, prevention and training; Social economy, innovative and local employment initiatives and pacts. START schemes were carried out under the title: „Normative supports to promote employment“ – SROP 1.2.1. Its funding is based on the European Social Fund in 85% and related domestic resources in 15%.

The reference at the selection and implementation of the policy

There was only one impact study on the antecedents of START wage subsidy programmes as part of a project funded by the World Bank. According to this, two main conclusions can be put forward: first, these programmes did not improve employment chances in the mid-1990s; second, there were differences in the probability of being retained in work among participants of wage subsidy programmes. The probabilities spread according to gender, age group and educational attainment: women, those over 25, and with higher than primary school education were more likely to be retained by the employer who received the wage subsidy, than men, those aged 25 years or younger and with a primary education or lower (Galasi and Nagy, 2013).

The START programme – the extension of contribution discount - was initiated by the Ministry of Social Affairs and Labour (the legal predecessor of the present Ministry of National Economy) in 2006. The initiative based on earlier experience on the labour market and adressed the recovery of labour market demand. The overall employment rate in Hungary (57.3%) was the third lowest in the EU in 2007, with the participation of young and older people and other disadvantaged groups being particularly low. EU level documents and recommendations supported this view and recommended appropriate labour market policies and the European Social Fund provided the financial support.

Interview findings

From the interviews it seems as if in these wage subsidy programmes were interested only the narrowest professional stakeholders and in the whole network of policy selection and implementation organizations officials did not know who and why have chosen a certain measure. Most of them belong to the operative level of the employment service organization they know their duty and role; to execute the given tasks. Public opinion does not know about this programmes, is not interested in and, does not want to intervene.

Although there were critical opinions as well, stating that in Hungary the demand side of the labour market has never been examined and as a consequence any policy measure is equally good. Policy experts in the position of decision making „go to the EU bazaar and do their shopping”, and they will do it until there is EU fundation. In 2005 the selection of START

20 The total fund was 723 686 776 EUR with 15% co-financing
21 The findings of this research are presented in O’Leary’s (1998) paper
card also was this kind shopping because youth unemployment especially among young people with higher education was not worse than other groups’ position. However the worsening situation in the following years justified retrospectively this choice. And as an example of the path dependency sooner or later all disadvantaged group were given the same treatment. Regarding statistics on unemployment somebody reported that the number of registered jobseekers were significantly lower before the introduction of the START card because non-registered jobseekers appeared and became visible.

### 2.3 Model Public Work Programme

In 2005 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 was 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 – Ministry of Employment and Labour, 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 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 was expected to reach 24 thousand by the end of the period.
2.4 The “Pathway to Work” scheme

The “Pathway to Work” is a complex scheme that started on January 1, 2009. It aimed to help people claiming regular social benefits to return to the labour market. The target group of approximately 200 thousand persons is divided into two groups. The group that had no chance – at least in the short-run – of returning to work will continue to receive Regular Social Allowance. The other group however, is made up of people who are capable of and expected to work. If there are no vacancies on the open jobs market, they can join public works schemes and receive a regular wage instead of benefits. The number of early school leavers is estimated to be around 7–8 thousand. They will be required to finish school so that at a later stage they can take part in vocational training or job training. Eligible people of working age, who are prevented in taking part in any of the active schemes for reasons not attributable to them, can claim Stand-by Allowance.

Eligibility for cash benefits for people of working age

<table>
<thead>
<tr>
<th>Regular Social Allowance (RSA)</th>
<th>Stand-by Allowance (SA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Long-term health condition prevents employment</td>
<td>– Not eligible for Regular Social Allowance</td>
</tr>
<tr>
<td>– Aged over 55 years</td>
<td>– Unable to find paid work due to a shortage of jobs</td>
</tr>
<tr>
<td>– No access to child care for children aged under 14 years (other parent is not claiming any assistance)</td>
<td>– Cannot take part in training or takes part in a training programme without income replacement</td>
</tr>
<tr>
<td>– Other reasons stipulated in a local government regulation.</td>
<td></td>
</tr>
</tbody>
</table>

According to the new regulation, the eligibility of all individuals of working age claiming Regular Social Allowance on December 31, 2008 had to be re-assessed by March 31, 2009. If they were no longer eligible, the payment of the benefit was terminated. Otherwise they continued receiving either the new Stand-by Allowance or the Regular Social Allowance. Eligibility for working-age benefits must be re-assessed at least every two years.

People claiming Regular Social Allowance – except those with a long-term health condition – are required to cooperate with the institution designated by the local government – usually the local family support service – if they want to retain their eligibility. The exact content and form of this cooperation was set out in the Reintegration Agreement and can include skills upgrading, lifestyle counselling or training.

The state budget co-finances Regular Social Allowance at 80% – 10 percentage points less than in the previous system. The same rate applies for the Standby Allowance. There have also

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24 3 Act CVII of 2008 on the Amendment of Certain Social and Employment-related Legislation. The Act was ratified by the Parliament on December 15, 2008 and it amended the provisions of Act III of 1993 on Social Administration and Assistance.
been important changes in the financing of public works. Instead of the flat-rate per diem of 3,900 forints, local governments get reimbursed for 95% of the actual labour costs (wage and contributions) and the remaining 5% is incorporated into the normative funding for local social expenditures, cash transfers and in kind benefits. Local governments have protested at various forums against bearing the material costs of public works alone. For employment in public works – at least 6 hours/day and 90 days – a fixed-term contract must be drawn up.

Work must be arranged by the local government for which they were allowed to hire staff for a period of two years. People employed in public employment programmes receive a wage which cannot be less than the official minimum wage. Employers are entitled to a 50% reduction on contributions, including the Social insurance contribution, the Employer’s contribution and the Fixed-sum Healthcare contribution. This can be used on wages up to 130% of the minimum wage.

Local governments must prepare a public works plan by February 15 each year. The local office of the labour centre and in localities with more than 2,000 inhabitants the local social policy partnership board must be consulted on the draft plan. The document must set out the estimated number of people eligible for the Stand-by Allowance and the timing and budget of public works. The public works plan must be sent to the Treasury within 5 days after its adoption.

Some problems had been also identified:

– The local office of the labour centre must be consulted on the draft plan, however consultation is not required if the plan is amended during the year.
– The plan must be submitted to the Treasury, however it is unclear what the Treasury needs to do with it.
– Professional assessment and financial control of public works plans are not required.
– No organisation is appointed to collect data on public works plans, monitoring system or set up.

Most people who are eligible for working-age benefits are joint customers of the employment service and local authorities, and even though most issues clearly belong to one of these authorities, they are also strongly interlinked. To ensure that the division of tasks between the employment service and the local government is clear and the transmission of data on eligibility and payment is up-to-date a database – Employment and Welfare Database – was being set up. This is an electronic database of individuals eligible for working-age benefits.

The budget allocated 100 billion forints to regular benefit payments and the implementation of the “Pathway to Work” Programme in 2009, however it was uncapped in case there is increased demand. According to first estimates, out of 210,000 people claiming Regular Social Allowance, approximately 100,000 would be involved in the programme either through training or fixed-term employment in public works. At the same time public works plans estimated the total number of people involved in the programme at 150–160,000. Erika Szűcs, the ministerial commissioner at that time, responsible for the implementation of the Programme said that approximately 100,000 people could be involved in public works employment or receive Stand-by Allowance. It was therefore necessary to create rules that motivate businesses and public bodies to take part in the programme.

The stated aim of public work\textsuperscript{25} is to support development and renovation projects, especially in the fields of infrastructure-development, protection of the environment and the provision of public services in regions lagging behind that are suitable for reducing territorial disparities and unemployment by offering job opportunities for the unemployed and those

\textsuperscript{25} 199/2008. (04. 08) Government Regulation on support for public works programmes
who are no longer eligible for assistance. Funding is available upon submission of a proposal, typically from the state budget.

From the perspective of employment policy, employment in public work has the following roles (Frey, 2011 pp 227-228):
– involving people who have adequate experience or qualifications and are ready for work in on-the-job training;
– offering a “larger-scale” solution in local areas where municipal governments are the only employers;
– promoting corporate social responsibility towards the problem of unemployment (cooperation, financial contribution);
– promoting coordination and cooperation of municipal governments in tackling unemployment at the level of micro regions.

In public work projects at least 40% of the workforce has to be claiming Regular Social Allowance or Stand-by Allowance since 2008.

Community service work is regulated by the Social Act, which stipulates that municipal governments organise employment to improve the labour market situation of jobless people. This can be either community employment, public work, or community service work. The Pathway to Work programme introduced in 2009 offers participation in public employment programmes to people claiming social assistance who are capable and ready for work. The main form of employment is community service work projects organised by municipal governments. Municipal governments together with the public employment service are required to prepare a public employment strategy. Participants in the programme get a fixed-term employment contract for a minimum of 90 days and the working time is at least six hours per day. Ninety-five per cent of the expenses (wage and contributions) arising in relation to community service work for municipal governments are reimbursed by the state budget and the remaining five per cent is paid together with the statutory state contribution to social assistance.

The new system of public employment from 2011 up to the present

The previous system of public works was replaced by a completely new system in 2011 (Busch – Cseres-Gergely 2012, pp 196-197). A new fourpillar public works program replaced the three types of public works – centrally organised, community and municipal public works. The four pillars are: short-term public works, longer term public works, mobility within public works and nationwide public works programs.

Employers can be – apart from the state – local councils, churches, social cooperatives and some specified businesses (water companies, forest management, national rail network). The program was overseen by the Ministry for National Economy in the first half of 2011, but from July 1, 2011 this was taken over by the Ministry of the Interior. As of January 1, 2011 there had been also structural changes taken place; the seven independent regional job centres were transformed into 20 job centres and incorporated into the county government offices. An important change in the organisation of job centres after September 2011 was that about half of the staff has been dealing with the administration of public works.

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26 The minister responsible for public works can launch pilot schemes for short term, longer term and national public works programs. Pilot schemes are implemented in water management, agriculture, waste management (clearing up illegal waste dumping sites), the maintenance of unpaved roads used for agricultural purposes, road maintenance, winter employment.
As of September 1, 2011 the regulatory framework of public works were aligned with the conditions of unemployment assistance. A new type of employment relationship was created, the public works contract that removes participants of a public works program from the coverage of labour legislation in many aspects (such as the statutory minimum wage). Different types of assistance are available for public works programs. Assistance can be paid for short- and long-term and nationwide public works program. Public interest agency work is also eligible for assistance if it employs people claiming income replacement assistance and also provides training and mentoring. In these cases the assistance equals to the amount of public works minimum wage. Furthermore, any employer recruiting workers claiming income replacement assistance is eligible for assistance; these workers should be paid the statutory minimum wage and there is also a requirement of continued employment.

In the 2013 volume of Hungarian Labour Market regarding public employment, authors reported on “the fine tuning of the public works scheme” (Busch, Cseres-Gergely & Neumann, 2013, pp 281-28). The employment in public works was the largest active measure, this included short- and longer term public works, national public works projects and Start-work demonstration projects at the level of small regions. The working time increased more than four hours per day in the majority of projects in 2012 – based on experiences from 2011. It also includes mobility assistance for public works as well as assistance for businesses to employ people claiming out-of-work assistance. The actual Hungarian benefit is called “foglalkoztatást helyettesítő támogatás” (fht), translated as Employment Replacement Support; however neither of these has been claimed (in the first case the incomplete regulatory framework might have contributed to this). Public works programmes continue to be managed by the Ministry of the Interior, the Ministry for National Economy is responsible for managing the public works appropriation of the National Employment Fund (in Hungarian: Nemzeti Foglalkoztatási Alap, NFA; previously the Labour Market Fund, LMF in Hungarian: Munkaerő-piaci Alap, MpA) and undertaking financial commitments. Job centres are responsible for the contracting and payment of public works employers and employees. Funding comes from the public works appropriations of the National Employment Fund, and the appropriations of the SROP 1.1.2/1.1.4 programmes – for related training programmes. The demonstration programmes that had started in 2011 continued in 2012: in the 94 small regional Start-work demonstration programmes more than 1,600 settlements and approximately 66,000 workers participated in the first eight months of the year (National Labour Office data).

There are seven different types of public works programmes that local councils can take part in:
1) Agricultural projects – animal husbandry, crop cultivation or both (provision of machinery, seedlings, polytunnels etc. for participants),
2) Maintenance of dirt roads used for agricultural purposes,
3) Drainage,
4) Clearing up illegal landfill sites,

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27 Legislation regarding the new system: New legislation: Rules after January 1, 2011 were laid down by Government regulation no. 375/2010 (31. 12) on Assistance for Public Works; rules after September 1, 2011 were defined by Act 106 of 2011 that also amended a number of other acts such as the Employment Act and Labour Code. Further rules can be found in: Government regulation no. 170/2011. (24. 08) on Wage Setting and Statutory Minimum Wage in Public Works and Government regulation no. 171/2011. (24. 08) on the Amendment of Certain Government Regulations in Relation to Public Works.
5) Organic and renewable energy production (for example switch over to bio boilers, the production of grass, shrub and log briquettes etc.),
6) Maintenance of public roads,
7) Winter and other “meaningful” employment (for example preservation, drying and pickling of vegetables and fruits, making pasta, maintenance of local council buildings etc.).

Agricultural programmes run throughout the year while other programmes typically last for five months. One person can participate in only one programme at a time. The deadline for local councils to set up new Start-work demonstration projects was extended until 1 July, 2014.

Changes in legislation make it possible for Start-work demonstration projects (mainly agricultural projects) to become self-supporting and establish social cooperatives, and under certain conditions equipment purchased in demonstration projects can be transferred to social cooperatives. Currently the aim is to establish social cooperatives over the next two years\(^{28}\); the elaboration of details is still underway. There are approximately 300 social cooperatives in Hungary and around 40 demonstration projects might become self-sustaining and turn into social cooperatives in the future\(^ {29} \).

According the most up-to-date analysis (Cseres-Gergely- Varadovics 2014, pp228-229) public employment seems to be the most important measure and the aim of the most important changes has been the promotion and extension of the tool. Public works model programmes could be launched up to 1 July 2014 in seven areas in cases defined as model programmes by the Minister of the Interior. The costs of these programmes are reimbursed to the extent of 70 to 100% by the central state budget.

After the closure of the public works model programmes which are deemed successful, further programmes can be launched based on the same idea. Investment and material costs of such programmes can be reimbursed to the extent of 50 to 100% by the central state budget, based on a decision by the Minister of the Interior. The condition for subsidies as of November 2013 has been that the public works employer must reinvest the income generated by the public works model programme into further financing the public works programmes or the operation of social cooperatives.

The extension of the implementation of public works programmes has been promoted by the National Fund of Land by a transfer of certain pieces of land for five years of free use to the local governments involved in public works programmes.

The types of settlements where public works programmes may be launched has been extended. The definition of the small region which has a special importance in public works programmes has been settled: small regions where half of the settlements have a special importance in public works programmes are considered especially important. As of January 2013 public works require an expert’s opinion on employability. Beyond 1 September 2013 unemployed people may be excluded from public works programmes either if they are subject to a procedure investigating or proving a default of their school-age child, or if they fail to

\(^{28}\) Details can be found here: [http://www.szocialsgazdasag.hu/en/?mod=mainpage&cla=mainpage&fun=access&temp=fooldal](http://www.szocialsgazdasag.hu/en/?mod=mainpage&cla=mainpage&fun=access&temp=fooldal)

meet obligations concerning the tidiness of their living environment as specified by local government decrees. It is the responsibility of the labour centre’s branch office to issue a formal decision on the exclusion from the programme.

Between December 2013 and April 2014, both public works and training were available in the framework of the wintertime public works programmes. Programmes were mainly targeted at the development of core competences and offer a catch-up training for grades 7 to 8 of the primary school. Participants received payment during training on the basis of the six hours a day spent in training. The number of participants was around 50 thousand. As a result of the wintertime public works programme the number of people involved in public works programmes increased from 88 thousand to 203 thousand, a large gain compared to the same month in the previous year.

As of 1 January 2014 the yearly amount of contracted work in public works programmes must not exceed 11 months for a single person. This rule can be overridden only by permission from the minister in charge of public works programmes for cost-efficiency considerations and without risking people’s chances of getting admitted to the public works programme.

**Evaluation of the programme**

The primary employment effect of direct job creation is that workers in non-market jobs are considered employed and count towards the employment rate. Nevertheless the indirect and possibly the most important effect of direct job creation might be that it provides an opportunity for people to enter the labour market. Labour market integration is facilitated by adequate services and supports as well as the nature of work – among others by providing relevant work experience.

*O’Leary* (1998) analysed the effect of public works schemes in Hungary over a decade ago and a similar analysis was carried out more recently by *Csoba, Nagy and Szabó* (2010). The *Road to Work Program* was examined by *Budapest Institute* and *Hétfa* (2011). None of these studies found a positive employment effect over the studied period.

*Scharle* (2014) in a paper on the size and cost of public works employment depicted the public sector in Hungary which is characterized by the large and expanding public works sector, which employed more workers than the textile industry or water management and almost as many as the public health care sector in 2010.

„In Hungary on average 30–40 thousand people worked in some form of public works each year between 1996 and 2008. This number increased to 60–100 thousand after 2009 and in 2013 it surpassed 130 thousand. This means that on any given day of the year, on average 10–14 per cent (21% in 2013) of the registered unemployed were employed in public works programmes, and this was approximately equal to the total number of people in re-training, wage subsidy and other active labour market programmes.\(^3\) The total cost of the various public works programmes was around 0.1–0.2 per cent of the GDP before 2008, which increased to 0.2–0.5 per cent after the launch of the “Road to Work” programme.

According to OECD data from 2010, only Belgium had similarly high public spending on public works programmes (0.39% of the Hungarian and 0.36% of the Belgian GDP).

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\(^3\) More precisely, the number of people employed in public works programmes was compared to the sum of registered unemployed and public works participants.
Expenditure in Ireland, France and Slovenia was also high, but more modest than in Hungary, while other European countries spent below 0.1% of their GDP. The number of participants in public works programmes is also extremely high. In Hungary 2.4 per cent of the active population worked in some form of public works in 2010, in Belgium 3.2 per cent. The number of participants was also relatively high in Slovakia, Ireland and France (1.6, 1.1 and 1.0 per cent respectively), while in other countries it was below one per cent. There have been public works programmes in Hungary since 1987. Similar public works programmes, although under different names and somewhat different conditions, were run by local councils from 1987, then by labour offices/centres from 1990, by the Public Works Council from 1996 as well as by municipal governments from 1997. However, their scope reached this spectacularly high level only after the launch of the Road to Work programme in 2009.

According to current regulation, people in public works programmes are employees in some respect: they pay pension and health care contributions, they are entitled to sick leave and annual leave, however their pay is somewhat under the statutory minimum wage. Municipal governments can organise public works programmes for activities that promote the “public good”, except for core municipal tasks. Therefore, for example health visitor, nursery worker and social welfare officer jobs cannot be filled with public works employees. Public works provides cheap labour, but only that. Therefore it only represents good value for municipalities if it is used for tasks that do not require substantial capital, highly specialised skills and expertise, or major organisation and management. On the one hand, this encourages local communities to use highly labour intensive technologies to carry out the tasks that are most useful to them. On the other hand, it also encourages them to choose projects that can be efficiently accomplished using mainly manual labour. In the first case, the municipality is contributing to the public good, however in a wasteful manner. In the second case, although they are using their resources efficiently, there is no guarantee that they are carrying out tasks that are most useful for the public. Whichever option municipalities follow, the sub substantial amount spent on public works fails to maximise the public good. “(Scharle, 2014 pp 56-57)

From March 2015 the Ministry of Interior launched a new webpage for the information regarding public employment: http://kozfoglalkoztatas.kormany.hu/. It provides information on the system of public employment, on best practices, about the headcount and cost data of the programmes, and trainings and services for persons participating in public employment. Earlier only the National Employment Service homepage helped the orientation: http://nfsz.munka.hu/engine.aspx?page=nfsz_kozfoglalkoztatas. These sources of information do not disclose debated issues regarding public work. However local studies in rural regions have found that “the current public work system has become a dead end, and is humiliating from both a macro and a micro point of view, it does not provide motivation, and all it does is help the manipulation of statistics” (Vidra, 2012). The effects of enforced public work with reduced social allowance and the

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31 Another difference is that (unlike regular employees) if they refuse to take part in public works (or hand in their notice and leave) they cannot re-register as unemployed and claim benefits for 60 days.
32 Public works programmes are not inspected on a regular basis, which might create an opportunity for fraud; however this is not related to the size of the programmes or the number of participants, therefore it was not considered here.
33 Pro Cserehát Egyesület, 2013. www.pillangokutatas.bffd.hu
“social surveillance” (people can be excluded from public employment if they fail to meet obligations concerning the tidiness of their living environment as specified by local government decrees) is a constant pressure on local governments and on benefit recipients as well. The authors claimed that the views that find the current public work programs good and important are merely part of government “workfare communication” (work based society, work for allowance), and, within that, ideological support of the punitive nature of public work.

They also stated that public employment has further detrimental effect because in communities where they are receptive to the ideology of workfare they seize every opportunity to enforce it, while in places where there is no such receptivity, they try to exercise social sensitivity even at the cost of by-passing the law. At the same time the very strong central anti-poor policy may trigger the disintegration of local communities even where the local government is trying to implement an opposite strategy.

While the official rhetoric optimistic and concentrate on the main indicators (the activity rate and employment rate)35 the Hungarian Anti Poverty Network36 in its paper “Public employment trap” published in 2014 pointed out that public employment leads only few people back to the open labour market. While central employment service cost includes the search for job, most of the sources are spent on this job seeking activity, public employment hinders this activity. The public employment wage is not enough to lift the family above the poverty threshold and lags behind the subsistence level. Most of the public employees have extremely bad living conditions, income and housing conditions. The characteristic of the work does not support any real work experience and, the development of skills and knowledge. The work is carried out under bad working conditions and often goes along with humiliating treatment.

The whole system of public employment functions as a trap, because it is more favourable than Stand-by-allowance and can be more easily accessible (mandatory) than the real employment. Because of that, long-term unemployed persons, lack of something better, strive to get into the system (because even despite the mandatory nature many are left out). Nevertheless the public employment, if there is no family member employed permanently, will lead pauperization insomuch that it will hinder the real employment and not only for the public employees but for their children as well. It will lead to a pathological balance which cannot be left and the whole situation starts to work in a self- fulfilling way: persons who got into the system after a while will be unable to “normal” employment. The criticism ends with blaming the government for ignoring the situation and covering problems with the agenda of keeping a tight rein on the poor and long-term unemployed.

**Interview findings**

The introduction of public employment at the beginning took place without the interest of public opinion or civil organizations but when it became mass and visible it evoked strong reactions. Reactions can be categorized according political preferences: people earning their living in public or governmental administration listed pro, others listed contra arguments.

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35 In the National Strategy Report on Social Protection and Social Inclusion 2008-2010 it was stated that: “Strong work incentives have been introduced in the social assistance systems as well in the recent years, presumably resulting in the decrease of the number of inactive people in a short time:”

http://ec.europa.eu/social/keyDocuments.jsp?type=3&policyArea=0&subCategory=0&country=0&year=0&advSearchKey=nsr+spsi&mode=advancedSubmit&langId=en

The critics framed the problem with the labelling, stigmatizing, blaming mechanisms. One of them said: “This is the question of internment or integration: <Unemployed should do something even there is no job> this is the principle in Hungary.”

In public employment there is a mix of employment policy and social policy, some interviewee think that the history of the Hungarian employment policy is the history of inner government conflicts: employment policy always wanted to dominate social policy. Employment policy is governed by the state while social policy is by the municipalities. Employment policy wanted to centralize the decentralized social policy and that led to the conflict of the two branches. This problem manifest itself in the protest against the enforcement in public work from the social branch. In Hungary there is no tradition of „white paper” and „green paper” and than discussing and harmonizing matters. About the aim there was non-public debate and the introduction and implementation went at technical level.

The pro public employment officials and experts emphasized the role of the political opposition, according to them the Opposition incite passions, and people should be asked about it, because they know that there is no other way to solve the employment of the most disadvantaged groups. They also thing that there is a continuous improvement in the programme and the activity rate improved also.

Other pointed out the impact on poverty: „I think that the impact of public employment on poverty is undeniable for sure. The poverty indicators which were shown by TÁRKI (Social Research Institute) and KSH (Hungarian Central Statistical Office) proved the serious role of the income differences between the public employment wages and the stand-by-allowance. These differences appear in the [improving] poverty indicators.”

Many pointed out that 83 % of public employment participants has elementary school education and/or lives in a deprived region. This is the main problem of the employment policy from the 1990s and it should be solved somehow.

The social acceptance of the programme is high according the majority of respondents, allowance is believed to be costly while public employment is believed to be creation of value. There is no escape from assistance but public employment gives the opportunity for work socialization and social network.

Nevertheless others raised objections against the wasteful practice: “The recent form of public work functions well in areas where it went well earlier. The 20% investment motivated the municipalities and they could even undertake that people did not appear at work. Only one mayor gave back his mandate, because did not want to take part in this. An (public utility) egg costs 300 HUF! If every cost is added up. In economic sense it is a tragic wastefulness.”

It was also mentioned that for political and governmental propaganda reason there were many “innovations” introduced connecting public employment. For instance the so called “Winter training” when within two weeks (30. Oct and 15 Nov 2013) mayors had to hire 100 thousand people in order to improve the unemployment statistics just before the general election.

The general impression is that all mayors and public employee love the public employment and the public, the ordinary people themselves all became fond of it.

2.5 The new Labour Code - 2011

The Hungarian labour market is characterised by a moderate unemployment rate, a relatively low participation rate and flexible labour market institutions. Union coverage is low and declining, and the unions have little power. Hungary’s employment protection index is
also the lowest in the region, while hiring and firing costs are low by international comparison. The adjustment of wages is also relatively easy. Employment Protection Level (EPL) in Hungary is lower than the EU-average. According to some researches, the former Labour Code of Hungary was one of the most liberal in Europe (Köllő and Nacsa 2005), but after the introduction of the new Labour Code in 2012 (and a number of changes of the former labour code between 2010 and 2012) it got even more flexible.

According to László Neumann (2013, pp 288-297) from a labour market perspective the two main factors of employment legislation are protection from dismissal and strengthening the position of workers in wage bargaining. These two are not unrelated either, and generally the law might cover both individual and collective employment rights (and thus have an impact on the opportunities of workers’ organisations). Strict employment legislation might encourage some employers – those who are negatively affected by stricter rules – to take up undeclared employment that is outside the scope of labour legislation. At the same time as the increased likelihood of illegal or semi-legal employment, weaker sanctions for informal or illegal employment practices are themselves sources of flexibility that must be considered in addition to the analysis of legislation (Tonin, 2009).

Hungarian labour laws were considered as one of the most flexible by European standards or even compared to other countries in Eastern Europe already in the mid-2000s (Köllő and Nacsa, 2005). This is also confirmed by comparative analyses of employee protection indicators that mainly focus on protection against dismissal of workers (including associated costs and procedural aspects) (OECD, 2009, Venn, 2009).37

The Labour Code 1992, was passed into law immediately following the democratic transition from state socialism. The details of the 1992 Labour Code established a combination of fairly flexible regulations with some strict minimum standards. It was envisaged that sectoral and workplace-level collective bargaining by sectoral unions and workplace-level unions would ensure better terms and conditions for workers than those stipulated by the minimum standards of the labour code. Regular amendments by successive governments ensured that it responded to changing political and economic needs. The range of issues that could be regulated by collective or individual agreement according to the needs of employers was increasing after 1995, weakening the strong legal protection of workers.

The new Labour Code was adopted in December 2011. Major work on the re-conceptualisation of labour legislation was commissioned by previous governments before the crisis; however, for political reasons this has never reached legislative stage. It was argued that the need for a new Code was justified by changes in the structure of the economy since 1992 (the dominance of private ownership, the share of small- and medium sized enterprises, the spread of atypical forms of employment, increased demand for flexibility) and the failure to meet the original legal and policy objectives from 1992 (expanding the playing field of collective agreements). The new law was also justified by tasks arising from the harmonisation of EU law, and its Preamble even refers to the European Commission’s Green Paper on Modernising Labour Law in the 21st century based on the EU’s Lisbon Strategy (EC, 2006) as well as academic debates and legal solutions in Member States. These highlighted legal

37 Hungary’s ranking on these indicators does not suggest at all that the level of protection would jeopardise labour market flexibility. According to the OECD’s Employment Protection Index in 2008 there were only 10 countries that had higher overall labour market flexibility than Hungary. Hungary’s score of 1.82 is smaller (indicating more flexibility) than the OECD average of 2.11 and Poland’s 2.01, Slovakia’s 2.45 or the Czech Republic’s 3.0. For detailed flexibility rankings of Central-Eastern European countries by different indicators see Tonin (2009).
measures necessary to create flexible employment conditions while maintaining the social security of workers. The main direction of the Labour Code that entered into force in 2012 – similarly to the amendments of the old Labour Code – is aimed at increasing the flexibility of employment; however it also creates a new conceptual framework for this. Although the Government published the proposal in June, consultations with trade unions were protracted.\(^{38}\) The act – that was also amended by the act on transitional provisions adopted in June 2012 – entered into force on 1 July, 2012, however certain provisions only apply from 1 January, 2013.

In terms of legal theory, the main innovation of the new law is that it shifts the approach of the regulation from public to private law. This breaks the traditional protective function of labour law that aimed to balance out the asymmetric bargaining positions of the two sides of an employment relationship and at protecting workers in the weaker market position. Therefore the new Labour Code allows more scope for collective and individual agreements and by default these can even be unfavourable for employees. (In the old act this was the exception, only in exceptional cases could these agreements be unfavourable for employees.) On the other hand, where the act provides for minimum standards (for example the limit for compulsory overtime), these standards were lowered. Thus in terms of flexibility of employment, the only limitations are those provided by Hungary’s international commitments (EU directives, ILO agreements). The possibility or prohibition of deviation from the provisions of the law by collective agreement or individual employment contract is highlighted in a separate article at the end of each chapter in the Labour Code.

Though the new law from a legal technical point is admittedly – even by its critics – better than the old one, it can hardly be considered user-friendly. A number of earlier provisions are not set out in detail and their applicability can only be inferred from other articles, the justification of legislation and related legislation – such as the general principles of conduct or the Civil Code.

With regards to the flexibility of individual employment, the new law makes it easier to change the quantity of labour (external and internal numerical flexibility). In terms of recruitment, the extension of the probationary period is a measure – in principle available to both employers and employees – that allows the termination of employment without justification and consequences.

The new Labour Code retained the earlier provision that the maximum length of the probationary period allowed by a collective agreement can be six months. The employment contract must give details of the length of the probationary period, and in the absence of a collective agreement this can be up to three months. If the probationary period is shorter than this, it can be extended – once – by mutual agreement, however the total length of the extended probationary period should not exceed three months.

Employment contracts can pertain to full- or part-time, as well as fixed-term or permanent employment. The new Labour Code does not state how many times a fixed-term employment contract can be extended, however its length in total should not exceed five years. A new, family-friendly provision allows employees to reduce working hours by half until their children reach the age of three. A new feature of the law is the incorporation of atypical forms of employment (part-time on-call work, job-sharing, working for multiple employers, tele-work, home-based work, simplified employment or casual work). The law regulates a broader range of these by allowing the parties to agree on a number of issues. Temporary agency work remains to be a special type of employment where only the nature of the work

\(^{38}\) The social dialogue process will be discussed later based on Tóth’s (2012) paper
or job and basic pay must be agreed in advance, information about the location of work and other working conditions can be provided later.

From the perspective of labour market flexibility the revised regulation of the termination of employment by the employer is of key importance. It is not accidental that during the preparation of the new law this was the area that came under attack the most and legislators were forced to change their proposals in a number of areas, such as the prohibition and protection from dismissal or termination of employment without justification. Groups that were under prohibition or protection from dismissal remained in the new law as a result of compromises however detailed regulations changed significantly. (For example the rule that allows employers to dismiss members of these groups due to issues relating to the ability of the employee or the operation of the employer might offer loopholes.) At the same time the new law also allows employers to dismiss workers during different forms of unpaid leave (illness, parental leave, caring for relatives etc.). In these cases the notice period starts after the employer has returned to work. The statutory notice period is 30 days and it increases according to the length of service. However, a new provision is that if the employee initiates the termination of employment, the notice period does not increase, it remains 30 days. Although the basic rules of collective dismissal did not change, the rights of trade unions in relation to it did change: employers are not required to consult the trade union even in the absence of a works council. For temporary agency workers the notice period was changed to 15 days as opposed to the previous regulation that provided for 30 days if the duration of employment reached one year. In addition to the limitations and procedural rules of dismissal, its costs to employers are also relevant. Apart from costs associated with the notice period, the most important cost is redundancy pay. Statutory redundancy pay decreased somewhat. The law still stipulates that redundancy pay is three to six months’ pay, but the length of service is calculated as the period up to the first day of the notice period rather than the last day.

In the new Labour Code there were no new general regulations for public service employees (such as workers in public education, health care and social services), who make up the majority of the workforce in the public sector. The only – and far from insignificant – exception within public service was health care. In health care new sectoral legislation was introduced with a range of sector-specific flexibility provisions: on-call working, voluntary overtime etc.. After 1 March, 2012 employers can unilaterally impose up to 16 hours per week on-call work, however working longer than 12 hours per day in the health care sector must always be considered “voluntary overtime”, though it is paid. On the other hand the act gives an exemption from the application of wage supplement regulations of the new Labour Code in this sector. Otherwise – according to estimates of a trade union in the sector – employees in the health sector would see their pre-tax pay cut on average by 8,000–12,000 forints per month.

In general the new law made less costly and easier to dismiss workers. The consequence of unlawful dismissal is compensation instead of continued employment and the compensation is lower than previously. The reference period facilitates more flexible working time management. There are lower wage supplements in case of flexible working time or overtime (irregular working time) which means flexibility at a lower cost. The new rules of indemnity reduced the financial responsibility for employers. With the new regulation the employment became more flexible also in the public sector. The legislation of the new labour code clearly changes the balance of regulation between employers and employees. Altogether, the lowering and diluting of minimum standards, flexibilisation and shifting of
some of the risk of employment to the employee makes the regulation more beneficial for employers. It ensures flexibility for employers and, at the same time, lowers the security net for employees.

As for the regulation of industrial relations, the new labour code puts unusually large emphasis on agreements between employers and unions and on making them key partners so that employers are able to achieve the full flexibilisation potential of the new code. Given that flexibilisation is designed to benefit employers in this case, one would think that the labour code would reinforce the position of unions in order to ensure a more balanced power relationship in the working environment and thus achieve a fair compromise between flexibility and the legitimate interests of employees concerning security. On the contrary - one of the main aims of the government was to cut unions’ rights down to that of mere existence. The compromise reached in December only restored some of the traditional entitlements and rights of unions at the workplace level. As a whole, the regulations of the new code cut the entitlements and rights of unions dramatically. One of the most painful changes for unions in the new code are the cuts to the entitlements and rights of union activists.

The shift of the rights to be informed and consulted from unions to works councils is a clear signal” that unions will suffer a substantial loss of entitlements and prestige. In the parliamentary debate on the labour code, Prime Minister Viktor Orbán said that „Employees are unacceptably vulnerable today...unions will barely be able to defend workers... therefore the cabinet will bear the main responsibility for them”. Unions, in turn, expressed that the government is cynical, and that the real aim of the code is to undermine unions. Unions fear that some employers may facilitate the elections of docile works councils, who would be the negotiating partners and facilitate the further flexibilisation of work to the detriment of employees. It is widely feared that the new labour code, together with the disbandment of the standing national level tripartite body, aims to undermine unions’ organisational strengths and thus considerably weaken an important check on government power, while at the same time giving a freer hand to employers to have more flexible work arrangements and the ability to cut costs. It is no wonder that employers’ associations and representatives of big business have expressly welcomed the new labour code.

The process of social dialogue

„The draft of the Labour Code 1992 was negotiated with a view to reaching a compromise with social partners in the standing tripartite body. The re-legislation of 2012, however, was marked by selective and half-hearted negotiations on the part of the government.

The key for the selective negotiations was that in March 2011, just before publishing the draft of the new labour code, the government disbanded the standing tripartite body. This created an institutional vacuum which made it possible for the government to carry out a selective consultation process.

The process of consultation over the draft of the new labour code began on 22 July 2011, shortly after the publication of the text of the first draft of the labour code. At the same time, the Ministry of National Economy requested that social partners submit their opinion in written form within two weeks, by 5 August 2011.

The draft shocked unions as it eliminated almost all entitlements and minimum standards stipulated by the Labour Code 1992 and also envisioned eliminating all traditional

union rights. The six national trade union confederations, however, did not manage to submit one joint proposal to the government. They formed two distinct blocks along historical schisms. Two union confederations, the LIGA and the Workers’ Council, which were established during the transition period and reportedly have closer ties to the right-wing governing parties, submitted one joint opinion. The other block was formed by the four confederations – MSZOSZ, Autonomok, SZE and ÉSZT - which are the successors of the former communist union organisation. This block also submitted one joint opinion to the ministry with a list of amendment proposals.

The government held a one-day consultation at an expert level with all union confederations on 11 August. After the consultation, the unions criticised the fact that the experts were not open for real negotiations. The unions demanded that the government launch a social dialogue process with all social partners in a tripartite forum. The government also held a separate expert-level consultation with the employers’ confederations.

The employers were pleased with the draft. Nevertheless, they also requested the launch of a tripartite social dialogue process with social partners. The Ministry of National Economy, however, rejected the request. Clearly, the government did not want to enter into a consultation process with the prospect of reaching a compromise with social partners over the contested issues.

The unions, however, mounted a campaign to pressure the government, which included demonstrations, a media campaign and putting pressure on the government through the ILO and the Commission of the European Union. They also asked the ILO and the European Commission to assess whether the draft was in line with ILO recommendations signed by Hungary and with EU directives. The ILO expert opinion, which was prepared in a very short time, supported the claims of the unions in several issues. A media uproar over the drastic cuts of traditional entitlements also strengthened the point of the unions. Employers demanded proper consultation as well, while opposition parties also sharply criticised the draft – but of course from a different point of view.

The pressure forced the government into a u-turn in early September. It invited two of the six union confederations – LIGA and the Workers’ Council Movement - and three of the nine employers’ association – MGYOSZ, VOSZ and AFEOSZ – to negotiate concerning the draft. The four trade union confederations which were left out protested against the selective consultation. Following this protest, the government invited MSZOSZ, the biggest left-wing union confederation, to participate in the consultation procedure. Parallel to the consultations held by the Ministry of National Economy, the Prime Minister held a meeting with the President of LIGA and the President of VOSZ to consult them over the key issues of the draft on 20 September 2011.

Based on these negotiations, the government prepared a second draft, which was made public on 30 September 2011. The second draft re-established some of the minimum standards and entitlements of employees. The draft, however, did not change the regulation concerning union rights. Despite the protest of unions, the government submitted the draft to the parliament two weeks later.

A new wave of union protest, however, forced the government to reach a compromise with unions over regulation of union rights and entitlements. On 2 December, an agreement was signed by LIGA, MSZOSZ and the Worker’s Council Movement which partially re-established some of the traditional rights of the unions. A separate agreement stipulated that the new labour code would enter into force only on 1 July 2012, half a year later than the government had originally planned. One of the conditions of the government for entering into a
compromise with the unions was that the partners of the agreement had to declare that they had been consulted properly and that they supported the main direction of the new legislation. This agreement guaranteed the government that there would be no further public protests on behalf of the unions.

After the parliament had passed the legislation of the new labour code, the Ministry of Interior Affairs submitted a bill on a wide range of issues amending several laws. One article of this bill stipulated that the chapter of the labour code which regulates industrial relations would enter into force on 1 January 2012, half a year earlier than the code itself. Unions immediately protested against this change, accusing the government of breaching the earlier agreement which established that the whole code would enter into force on 1 July 2012. The government accepted the unions’ demands in most of the points, but insisted on introducing the new regulations on industrial relations in the armed forces earlier. As the unions of the armed forces had been the most active in campaigning against the new labour code, and indeed against other measures of the government, it has been widely claimed by unions that this measure was aimed at weakening the unions of the armed forces.”

The reference at the selection and implementation of the policy

According to the original reasoning - when in 2004, the then governing left-liberal coalition government had initiated a complete re-drafting of the labour code - a more flexible legislation would allow for a reduction of the amount of undeclared work and would also help companies to be more competitive. The preparations for the new code, however, were abandoned by the government because unions vehemently rejected the concept of the re-legislation, arguing that it aimed to weaken workers’ rights.

In 2010, however, the freshly elected right-wing Orbán government placed the re-legislation of the labour code back on the agenda. The government aimed for a new labour code which
1) makes the regulation of the working environment flexible in order to convert Hungary into one of the most competitive economies in Europe, and
2) cuts the traditional rights of unions to a minimal level, which would allow little more than their mere existence in workplaces.

Interview findings

The intention of re-formulation of the Labour Code somehow was always present from the early 2000s and during the 2008 crises it also seemed to be as one of the possible means mitigating the aftermath of the crises. There were meetings initiated from the Ministry of Social Affairs with all the possible stakeholders but it had never taken the form of strong formal commitment to draw up a new code. The legal profession, the employers’ interests and the change of public opinion all supported the idea of the new Labour Code. Some of the interviewees supposed that employers might had the strongest interest.

There was no direct financial constraint but the general need of the improvement of economic competitiveness also motivated a new law. With general election in 2010 the party power relations had changed and the opposition was not strong enough to intervene.

In the expert interviews the process of legislation was described as a codification with “outsourcing” method. Usually drafting of a bill is carried out by officials in ministries (in this occasion Ministry of National Economy was involved) but this time the task of codification was outsourced to five legal experts working at universities and as private lawyers. They were
acknowledged experts on labour law and had practical court experience as well but nevertheless they were not the employees of the ministry. This “inner circle” position also helped the five experts to organize and participate in the dissemination of the new law and to obtain extra income. From that time on up to the present further tasks are also outsourced from the ministry; amendments, interpretations and positions taken up in a case etc.. Only the trade unions raised an objections against this mode of operation. The employers’ organizations agreed because their experts were prevalent.

There were no preliminary experiments or analysis, nobody raised that claim, only the opinion of lawyers counted.

Three were many amendments compared to the first version, the employers supported but the trade unions had to turn to the European Committee and the ILO in order to have social consultation and keep to the earlier signed international treaties. The process of consultation never covered wider groups of stakeholders, it was typical that the new Code was passed into law on the very day when there was the first conference organized for the legal profession representative in order to introduce the new law and discuss with them.

The two thirds of final version of the new Labour Code retained the text of the old one. The interviewees also confirmed that the new law cannot be considered user-friendly. A number of earlier provisions are not set out in detail and their applicability can only be inferred from other articles, the justification of legislation and related legislation – such as the general principles of conduct or the Civil Code.

One of them – an advocate, representing clients in Court of Labour – stated that the impact of the new code that there are much less cases brought before the court (advocates and their clients cannot take the risk under this uncertain circumstances) and the other – also because of the lack of details (statutory provisions) supporting the practice of the law – that court cases take much longer because judges are irresolute and when it is possible waiting for the judgement from the High Court of Justice. In this way the practice of law will be formed by (literally) “trial and error” which is time and energy consuming.

According to another interviewee, based on the research carried out by LIGA trade unions40, the average employee cannot perceive changes regarding the new regulation, which is favourable for the employers and decreased dramatically the collective rights. Moreover it is also disappointing that atypical, flexible work is less than 5 per cent despite of the favourable regulation and there has not been created enough new jobs or at least not in the competitive sector.

3. Assessment of the influence of different factors and parameters on the performance of the innovations

In the introduction of this part the context of the innovations has already been depicted. The above mentioned economic and social background, the polarized party system and political culture, the dominance of the centralized state run organizations in the field of employment policies, the lack of civil organization involvement in decision making process,        

40 E.g. Mihály Laki – Beáta Nacsza – László Neumann (2013): Az új Munka Törvénykönyvének hatása a munkavállalók és a munkáltatók közötti kapcsolatok Kutatási zárójelentés. Műhelytanulmányok 2013/2 or TÁMOP (Social Renewal Operative Programme) -2.5.3.C-13/1-2013-0001 "A munkáért!"("For Job") project on the national impact study research on the new Labour code
and the virtually non-existent veto points represent the context of these policies. Further on we are going to discuss these policies according the key points of factors and parameters.

The initiator of these innovations was either the ruling political party or one of the actual governmental bodies. However the categorization is blurred because the political will never lacks entirely professional policy considerations and there is always political power factors behind any policy. All of these policies were introduced by the power of law, usually with detailed regulation on responsible organizations and duties.

The „Incentives for Hiring Disadvantaged Workers” and the following START programmes policies were initiated from the Ministry of Employment Policy and Labour (from 2006 Ministry of Social Affairs and Labour). The motivation primarily was to decrease youth unemployment, later to decrease unemployment in any target groups. In 2004 youth unemployment rate was not especially high in Hungary nevertheless the first target group were the young. According to the critical expert opinions, in Hungary the demand side of the labour market has never been examined and as a consequence of that the selection of a certain policy depended on the actual European Union employment policy fashion, and decision makers “bought this fashionable item in the EU bazaar”. The original motivation worked also later behind the following START programmes, as it went on to aim gradually all disadvantaged groups. Because the decision making was centralized and professionalized at ministry level and the PES (Public Employment Service) organization was well established at that time with a decade experience, and the Tax Office as START card issuer was also a practised actor and the implementation of the policy went on without major problems. The involved organizations fitted the programmes into their daily administrative routine and when it was necessary followed the minor changes (in regulation according amendments of the law) without difficulties. The START programmes (with the exemption of Start card) were financed from EU sources.

The significant change in this policies was between the „Incentives for Hiring Disadvantaged Workers” policy and the actual START card programmes; employers did not consider the level of original support high enough. They also found the whole procedure overly bureaucratic, including the fact that the subsidy was reimbursed at the end of the 9-month period, and that there was a requirement to maintain the employment relationship after that point. In reaction to these, subsidies introduced at the beginning of 2005 were replaced by the START Programme valid from October 1, 2005. The START finished in 2013 but the wage subsidy policies continued with almost the same target groups and with the same amount of subsidy up to the present.

As for the setting of policy standards and objectives the bureaucratic order of the organizations were followed, only officials and ruling party politicians were involved from the stakeholders and their commitment and trust between them was strong or unquestionable. There was no known any veto-players or social dialogue and consultation regarding this policies.

Model Public Work Programme preceding and leading up to the “Pathway to Work” scheme was introduced in 2005 within the framework of the “100 Steps” Programme. The

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41 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.
Government has launched a new public work programme to address seasonal employment problems and to involve the most disadvantaged groups. Public work was 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 was important (and never measured properly) that public work creates an added value to the whole community and the settlement, as set out by the local government.

The initiator was the Ministry of Employment and Labour or rather Public Works Council. The initiative was supported by the ruling political party because long-term unemployment amongst the most disadvantaged groups in the deprived regions of the country was one of the most uncomfortable political problems as well. The idea of public work was not publicly discussed and fitted well the popular new workfare rhetoric. So this, at the beginning at least, low-profile policy was supported by the policy officials, the politicians and the public as well. Nevertheless there was no public debate on the selection of policy or no other stakeholders involved. However the consecutive periods of public employments covered larger and larger number of long-term unemployed people and gradually replaced the other form of active labour market policies and cost higher and higher percentage of the GDP. The policy was strongly coupled with the structural reform of the social benefits and people who were earlier inactive (or on social assistance or job seeker allowance) were re-categorized and forced back to (public) work. Although it was planned to create added value and to lead people back to the open labour market it often turned out to be meaningless and counterproductive – and this evoked public interest, public debate and the growing involvement of the civil organizations. But these discussions are far from being influential factor in policy decision. The public employment, by its nature, often take place in public places so the public opinion can get personal impression on it, contrary to START programmes which always took place in offices in the frame of the privacy of personal administration.

Public employment programmes have been financed exclusively from domestic sources, from central budget and this way these policies were not “hindered” by the EU regulations and could be decided on, implemented and maintained by direct political will. The goal and standard setting usually were adapted retrospective to the already achieved target. Although there were several simple indicators, (e.g. the number of participants) when the substantive aim -, e.g. getting people back to the labour market – failed, it were replaced by another: the re-socialization into the world of work. The current situation is a kind of fine tuning, there are experimental programmes, social cooperatives and an effort to make them self-sustaining. On the other hand criticism pointed out that public employment will capture people in public employment and distort wages and labour market.

Regarding the method, the official governmental opinion is that this policy is more or less unprecedented and this view is supported by the fact that recently experts come from the EU to study the public employment programme in workshops organized by the Ministry of Interior Affairs. The current situation is that the policy is developed and maintained by strong political power, the two-third unanimity in the parliament, and there is no chance for alternatives against the will and taste the political majority. It is also often said that the Opposition cannot offer any alternatives to solve the problem of this uneducated mass living in deprived areas where ethnic ghettos are being formed.

The predecessor of the new Labour Code which was adopted in 2011, was considered as one of the most flexible. The details of the 1992 Labour Code established a combination of fairly flexible regulations with some strict minimum standards. During the two decades of the
life of the old law had been many regular amendments by successive governments ensured that it responded to changing political and economic needs. The range of issues that could be regulated by collective or individual agreement according to the needs of employers was increasing after 1995, weakening the strong legal protection of workers.

The major work on the re-conceptualisation of labour legislation was commissioned by previous governments before the crisis; however, for political reasons this has never reached legislative stage. In 2010, however, the freshly elected right-wing Orbán government placed the re-legislation of the labour code back on the agenda. The government aimed for a new labour code which on the one hand makes the regulation of the working environment flexible in order to convert Hungary into one of the most competitive economies in Europe, and on the other hand cuts the traditional rights of unions to a minimal level, which would allow little more than their mere existence in workplaces.

It was argued that the need for a new Code was justified by changes in the structure of the economy since 1992 (the dominance of private ownership, the share of small- and medium sized enterprises, the spread of atypical forms of employment, increased demand for flexibility) and the failure to meet the original legal and policy objectives from 1992 (expanding the playing field of collective agreements). The new law was also justified by tasks arising from the harmonisation of EU law, and its Preamble even refers to the European Commission’s Green Paper on Modernising Labour Law in the 21st century based on the EU’s Lisbon Strategy (EC, 2006) as well as academic debates and legal solutions in Member States. These highlighted legal measures necessary to create flexible employment conditions while maintaining the social security of workers.

The Labour Act is a special policy because it has many stakeholders, all the actors in the labour market are involved, and that means wide influence which would justify wide participation in the process of policy making. Instead of wide inclusive discussions, the process was marked by selective and half-hearted negotiations on the part of the government.

The key for the selective negotiations was that in March 2011, just before publishing the draft of the new labour code, the government disbanded the standing tripartite body. This created an institutional vacuum which made it possible for the government to carry out a selective consultation process.

The process of consultation over the draft of the new labour code began on 22 July 2011, shortly after the publication of the text of the first draft of the labour code. At the same time, the Ministry of National Economy requested that social partners submit their opinion in written form within two weeks, by 5 August 2011.

The draft shocked unions as it eliminated almost all entitlements and minimum standards stipulated by the Labour Code 1992 and also envisioned eliminating all traditional union rights. Trade unions in the new setting of consultation did not have right of veto over the law.

The government unfriendly strategy regarding selecting consultation partners and setting short deadlines was completed by a recently frequently used practice; the outsourcing of the codification. Codification used to be the task of ministries, in that case of the Ministry of National Economy but in that case several lawyers, independent from the ministries, executed the task.

As it was mentioned above, the process of consultation never covered wider groups of stakeholders, it was typical that the new Code was passed into law on the very day when there was the first conference organized for the legal profession representative in order to introduce the new law and discuss with them. Taking into consideration all the circumstances
it is no wonder that the level of trust between potential consultation partners and stakeholders decreased during the process and reached a relatively low point.

The current situation of the new Labour Code can be characterized by the fact that the average employee cannot perceive changes regarding the new regulation, which is favourable for the employers and decreased dramatically the collective rights. Moreover it is also disappointing that atypical, flexible work is less than 5 per cent despite of the favourable regulation and there has not been created enough new jobs or at least not in the competitive sector.

4. Conclusion

The impact of selected innovations on the resilience of the national labour market in relation to the target groups cannot be judged properly for lack of evidence. The abovementioned policy innovations usually have target values of indicators; the START programmes and Public employment both have published the planned and achieved target values. Nevertheless there are no systematic research on the real impact of different policies with control groups used in justification of selecting a certain measure in public or governmental administration. However research institution\textsuperscript{42} practice the method of impact assessment and regularly publish impact assessment studies. Scientific institutions advocate the reliable methods but so far on the information homepages of the policy innovations there are no signs of these approaches. The recent volume of the Hungarian Labour market focused on that issue. Kézdi (2012) claimed that “…we rarely know the effects of active labour market programs on participants, and we know even less about potential side-effects. Few programs are followed by impact evaluation studies, few of such studies are accessible to the public, and even fewer provide credible results.

One reason for the shortage of credible analyses is the lack of adequate data. Experimental evaluations are still rare everywhere, and they are all but non-existent in Hungary. Data that can meet the strict requirements for informative non-experimental evaluations are also rarely available. Another reason is the often low quality of the evaluation methods. Whether due to inadequate data or inadequate expertise, the ultimate reason for the shortage of credible evaluations is on the demand side.

If potential users of evaluation studies want to have credible evaluations, they could get them a lot more often than they may think. Many programs can be evaluated by credible experimental methods, and the data and expertise requirements for informative non-experimental evaluations can also be met for many programs. Most of the time it is a question of resources and priorities. Public access by the scientific community, combined with peer reviews is arguably the best way to impose appropriate quality control over the evaluation studies. Ensuring public access and hiring high-quality reviews are also under the control of potential users of the evaluation studies. Only credible evaluations are valuable if one is genuinely interested in learning the effects of a program.

Despite the positive developments large and high quality administrative data are still not accessible in Hungary and so far only one randomized experiment was conducted in Hungary.”

\textsuperscript{42} For example: Centre for Economic and Regional Studies, Hungarian Academy of Sciences, earlier: INSTITUTE OF ECONOMICS, Hungarian Academy of science http://www.mtakti.hu/english/ or Budapest Institute http://budapestinstitute.eu/index.php/
There are important points of not having reliable information on the impact of a certain policy:

1) **The target is not set or is not set objectively.** It happens when the new Labour Code aimed to improve the flexibility of the labour market. There was no measurable indicator set. Although research shows that: „The declared aim of the government (of the law maker) was to create a more flexible labour market which indirectly results in job creation. Unfortunately – mainly because of the time limits - we have not found any symptoms of such changes in the interviews and in the case studies. But we observed and registered the decline of the bargaining power of trade unions and deterioration of security of trade union activist. These development were direct and short term consequences of the new law which sharply restricted the room for manoeuvring of the unions. Moreover, the new Labour Code modified negatively the labour conditions and the bargaining power of the individual employees as well. Not only the decreasing wages and salaries but the shortened allowances, the growing working time the worsening conditions of probation, severance pay and of firing (from the point of view of the employees) showed that the new Labour Code increased the power and the space of manoeuver of the management and restricted these conditions of the employees. These changes were especially harsh at state owned companies, as for them the Code does not allow to deviate from certain mandatory regulations through collective agreements. On the other hand, we recognized that in a part of the companies the management implemented the new regulations very cautiously. It seemed that they prefer the balanced peaceful labour relations as a part of the company culture to the expected short-term profit increases.” (Laki et al, 2013)

According to the data of Hungarian Central Statistical Office the number of cases in Labour Court decreased dramatically from 2011. It was at an average 26 thousand per year between 2005 and 2010 and in 2011- 23, 000; in 2012-18,000; in 2013 – 16,000 and in 2014 – 14, 00 respectively.

The new Labour Code apparently had certain impact – although the time is too short to judge it – but not necessarily towards flexibility. Even flexible, atypical work is under 5% despite the new supportive regulation.

2) **The target is some superficial indicator regardless of any side-effect and/or long term effect.** Public work employment programmes aimed to lead people back to the open labour market, but an objective number has never stipulated. This way the accountability is impossible. The often used indicator is the number of long-term unemployed people participating in public work. The available statistics often do not inform about the length of the period in public work and the movement of people between stand-by-allowance and public employment. The unquestionable impact what public employment exerted was the improvement of labour market statistics and some poverty indicators.
Public employment participants in statistics belong to the employed category and reduce the unemployment rate and public employment wage is higher than stand-by allowance (even if it is lower than the minimal wage and subsistence level.)

3) Nobody cares about the (side) effect: In Start programmes besides to set a very simple target indicator value: the mere number of participants and employment after the expiry of subsidy the deadweight was not examined and assessed. When the registered jobseekers number started to rise this fact did not have any effect of the continuation of the programme.

All in all these innovative programmes were innovative in certain aspects (i.e. combined the measures and approaches with new target groups) but their impact on labour market resilience cannot be assessed objectively. It is not known how the position of the target groups would have been without these programmes. What is known is that they were all successful - (as one of our interviewees said: “I have never seen labour market policy which was not successful.”)-according to the standards which were set by the stakeholders who had the highest interest to meet them.

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PART TWO: Processes of policy learning in Hungary

1. Introduction

In theory, according to psychology of learning there are several ways to reach change in the behaviour in order to adjust the goals and techniques of a policy. Classical conditioning, trial and error - also known as instrumental conditioning, observation, and learning via insight are the basic forms.

It is also important that in order to get the learning gain that clear feedback must be ensured, without establishing the connection between a certain policy and its consequences learning is not possible or the lessons can be explained away especially in a field as complex as labour market policy.

Besides, policy making decisions are motivated not only by mere knowledge because it is also influenced by many other factors - discussed in details in several disciplines: political science, economics, organizational sociology, game and information theory and psychology. One of the typical examples of influence is the stakeholder interest. Stakeholder interest already influences preparations for decision making – it may lead to ‘local optimums’, i.e. situations that seem ideal if one considers a small number of alternatives, but that are not optimal if one considers the full range of policies available (Lindblom, 1959). There are also cognitive limitations and biases regarding the production and processing of information. And institutions involved in the decision-making process are not always able to aggregate personal – albeit possibly rational – goals of individuals to obtain the public good. Political decisions are usually made by groups with members in conflict with one another. And finally the relationship between the policy makers, civil servants and political leaders who possess a mandate based on democratic elections is also an important component.

Thus while in theory a policy failure should force the actors to avoid it, it will not happen necessarily, if it is not perceived or can be easily explain away, there is no learning effect. Classical conditioning principle can function when a general election victory makes a policy unquestionable. European Union could make the observational learning easier and at the same time with sanctioning certain practices can provide the means of the instrumental conditioning. The most reliable learning effect would be the one which based an insight and comprehension, knowledge gained from experimentation. This latter would be the basis for the evidence based policy making which is closest to the weberian rational- bureaucratic approach, however it needs reliable data, experts and openness from the side of decision makers.

Policy learning interpreted as “deliberate attempt to adjust the goals and techniques of policy in response to past experience and new information” (Hall, 1993) is strongly connected with policy making, since the result of learning is manifested in a new or renewed policy, implemented after a decision. Policy making provides the frame where learning, as a process and its result, can be tracked adequately. Evidence –based policy making fit well in this model.

Table 1 Actions and roles in the cyclical model of policy making
<table>
<thead>
<tr>
<th>Action</th>
<th>Decision maker</th>
<th>Expert</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Agenda-setting: identifying and defining issues*</td>
<td>politicians in charge and policy makers</td>
<td></td>
</tr>
<tr>
<td>b) Developing policy alternatives</td>
<td>civil servants and/or external experts</td>
<td></td>
</tr>
<tr>
<td>c) Ex ante assessment of alternatives</td>
<td>civil servants in accordance with criteria defined by decision makers</td>
<td></td>
</tr>
<tr>
<td>d) Decision-making upon thorough consideration of the above</td>
<td>politicians in charge: minister, government or parliament</td>
<td></td>
</tr>
<tr>
<td>e) Implementation</td>
<td>civil servants</td>
<td></td>
</tr>
<tr>
<td>f) Ex post evaluation of policy</td>
<td>experts not involved in the decision making and implementation</td>
<td></td>
</tr>
</tbody>
</table>

* may be based on the development of the country, politics (e.g. party manifestos), institutional agendas, lobbies, external crises, the media, international trends or ideologies.

If we try to apply the cyclical policy model, the Hungarian practice of identifying and defining issues (influenced by the media and external factors) more or less fits the first step of the model. However, the second step – of developing policy alternatives (by civil servants or experts) – is not characteristic of Hungarian reality. At the beginning of the 1990s, the self-confident civil servants (who had gained experience in public administration in the 1980s) provided full-fledged solutions rather than alternatives; by 2010, civil servants had hardly any influence on developing solutions and measures.

*Ex ante* evaluations are even less frequent, perhaps because politicians define policy instruments (e.g. public works schemes) without defining social, economic and political objectives first; or perhaps because everything is done in haste and there is never any time; or perhaps civil servants do not have the experience and autonomy to undertake *ex ante*
assessments. Decisions about the public works schemes were not taken after consideration of evidence-based alternatives: they were based on political considerations outside the scope of employment policy. Even though the EU would obviously like Hungary to adopt the model described above, employment policy is not based on it.

However, incrementalism is a strong feature of the sector: policy makers focus on individual measures, changes, side effects or political instructions, while the whole sector is stuck in a sub-optimal state (low employment level), which, as we can see from other post-communist countries, could have been avoided. In addition, we cannot rule out (although it is not verified either) that information and other cognitive biases (e.g. their work history in the 1980s or their lack of training in evaluation methodology and labour economics) may have had an impact on policy making. And finally, apparently the expertise of civil servants and the institutions that contribute to political decisions are not integrated in an evidence-based strategic structure of the policy cycle, but operate within a public administration and political framework that is not quite suited to strategy development, implementation and organizational learning.

Although policy innovations usually have target values of indicators, nevertheless there are no systematic research on the real impact of different policies with control groups used in justification of selecting a certain measure in public or governmental administration. However research institution\(^43\) practice the method of impact assessment and regularly publish impact assessment studies. Scientific institutions advocate the reliable methods but so far on the information homepages of the policy innovations there are no signs of these approaches. The recent volume of the Hungarian Labour Market focused on that issue. Kézdi (2012) claimed that “…we rarely know the effects of active labour market programs on participants, and we know even less about potential side-effects. Few programs are followed by impact evaluation studies, few of such studies are accessible to the public, and even fewer provide credible results.

One reason for the shortage of credible analyses is the lack of adequate data. Experimental evaluations are still rare everywhere, and they are all but non-existent in Hungary. Data that can meet the strict requirements for informative non-experimental evaluations are also rarely available. Another reason is the often low quality of the evaluation methods. Whether due to inadequate data or inadequate expertise, the ultimate reason for the shortage of credible evaluations is on the demand side.

If potential users of evaluation studies want to have credible evaluations, they could get them a lot more often than they may think. Many programs can be evaluated by credible experimental methods, and the data and expertise requirements for informative non-experimental evaluations can also be met for many programs. Most of the time it is a question of resources and priorities. Public access by the scientific community, combined with peer reviews is arguably the best way to impose appropriate quality control over the evaluation studies. Ensuring public access and hiring high-quality reviews are also under the control of

\(^43\) For example: Centre for Economic and Regional Studies, Hungarian Academy of Sciences, earlier: INSTITUTE OF ECONOMICS, Hungarian Academy of science http://www.mtakti.hu/english/ or Budapest Institute http://budapestinstitute.eu/index.php/
potential users of the evaluation studies. Only credible evaluations are valuable if one is genuinely interested in learning the effects of a program.”

It seems to be many missed policy learning opportunity because of lack of interest and low demand for evidence based knowledge.

1.1 The short history of decision-support and decision-making mechanisms behind employment policy in Hungary

According to a summary (Váradi, 2012) over the past 20 years, the boundary between the civil service and politicians in the decision-support procedures has gradually shifted towards the politicians: the civil service has increasingly become a mere implementer.

A confident late-Kadarian civil service (which considered itself to be professional) participated in employment-policy decision support, with considerable autonomy and influence, during two consecutive regimes after the transition. During the first Orban government, however, this role was restricted to codifying and implementing (increasingly impatient) political orders. Nor was this tendency reversed after the change of government in 2002; indeed it was pushed even further by the 2006 conversion of the deputy state secretary position into a political post. This resulted in a more successful realization of the political will of the government, on the one hand, but also in the demoralization of the civil service and its gradual exclusion from decision support, which damaged the quality of the decisions taken.45

In terms of the quality of policy making, the most remarkable achievement of the past two decades has been the attention given to data collection – something that has largely been due to the commitment of policy makers and to their demand that policy implementation should be more evidence based. The Employment Service collects detailed and good-quality data about the unemployed, the wages of employees and, to a lesser extent, the implementation of the main labour market policies. However, the data collected have not been adequately utilized to improve policy measures – partly because of lack of interest at the political level. Problem identification, the first stage in the policy cycle, is usually undertaken; but assessment of the impact of ensuing interventions is generally missing, as is any attempt to make adequate adjustments.

Narrow focus or scope regarding labour market indicators characterized also the Hungarian employment policy. For quite a long time, even as late as in 2002–05, the unemployment rate was the most important indicator for the ministry; only after 2005 did

44 Janos Kadar was the First Secretary of the Hungarian Socialist Workers Party between 1956 and 1988 and used to exercise absolute power over the society it ruled. The late Kadarian regime in seventies and early eighties ensured a relatively humble well-being and cautious liberalization and allowed to replace political loyalty with expertise.

45 According to Meyer-Sahling (2009), Hungary was one of the new Member States that joined in 2004 where, in some respects, the post-2004 shift (in compliance with EU norms) towards a Western European, autonomous civil service has been reversed.
civil servants realize that the employment rate is also of importance\textsuperscript{46}. The number of unemployed was not only important because it was used by the press to gauge the efficiency of the minister, but also because unemployment is, in general, more closely related to the unpopularity of a government than is inactivity: those who are not looking for a job accept their lot and thus do not blame the government as much as those who are looking for a job unsuccessfully. It was believed that economic growth will automatically improve the employment situation.

Until 2002, there was no sign that the ministry regarded the employment situation as a reason, rather than as a symptom and a key challenge requiring a complex, coordinated policy response. Employment policy even between 2002 and 2006 remained a mosaic of several separately introduced measures (rather than integrated in a comprehensive strategy), some of them only aimed at improving election prospects. The \textit{ad hoc} approach prevailed to employment policy: while it focused on developing, fine-tuning, cutting back or abolishing a measure, it did not pay enough attention to the whole of the system. Policy decision support was nothing more than deliberating (albeit often important) details, and the civil servants could not get politicians to put the main strategic issue – the low employment level – on the agenda. One of the most important questions of employment policy in the past two decades has been why it took so long for politicians to realize that the permanently low employment level is one of the key strategic challenges for Hungarian economic policy.

The Hungarian Parliament of the day never had a proper debate on the proposals of the government, least of all during the discussion of the budget. As the Hungarian system is institution-centred, baseline budgeting (Marczell and Romhányi, 2010), the goal of senior officials is to protect their own institutions and ensure their own finances. By a curious paradox, the government prepares Programmes for Government that contain more or less specific objectives, and then Parliament discusses the budget, in which there are unclear relationships between the objectives and the several thousand billion Forints set aside for the largest items. Similarly, progress in implementing the government’s explicit (and hidden) programme is not debated, and nor are the further measures necessary.

1.2 The impact of EU guidelines on Hungarian employment policy

Before the EU accession for example Hungarian wage policy has been influenced by the recommendations of various international organizations at various times. In the early 1990s, the recommendations of the OE CD and (especially) of the IM F had an impact, as did those of the International Labour Organization (ILO), which early on recommended setting up the tripartite interest conciliation system.

\textsuperscript{46} On the difference between employment and unemployment rate see http://www.eupedia.com/forum/threads/24192-Employment-vs-unemployment-rates-in-the-EU or http://www.iiea.com/themes

In Hungary low employment rate tradicionally was due to the very high number of people who receive disability payments or have early retirement and the connection between low educational attainment and unemployment.
Policy making was influenced by the EU accession – right from the start of the negotiations leading to accession\textsuperscript{47} and then, after 2004, by EU membership itself. There were influences from two sources: on the one hand from adjustment to the policy-making cycle of the EU (and consequent tasks), and on the other hand from changes that came with use being made of the Structural Funds.

Policy making in the European Union relies clearly on the classic cyclical model of policy making. When Hungary became a candidate country, it became subject to the European Employment Strategy, the Lisbon Strategy, and the related Employment Guidelines, and then to the integrated guidelines from 2005. Based on this, the country had to prepare National Action Plans (meeting EU-level objectives and then, later on, including national targets) between 1989 and 2004, and National Reform Programmes for the periods of 2005–08 and 2008–10, with convergence programmes that contained employment policy chapters. Experts from the European Commission consult governments before they submit these documents, and then the experts of the Directorates evaluate the final documents.

A similar document, prepared and evaluated in a similar context, was the annual Implementation Report, which described the fulfilment of the objectives undertaken in the National Reform Programmes. On the basis of this, country-specific recommendations are drafted. It is a requirement for Member States to follow the country-specific recommendations, but non-fulfilment does not entail sanctions – only reprimand. In the course of the coordination, several question and answer cycles take place. These review the objectives of economic and employment policies annually. The logic is different from the institution-centred, baseline budgeting of Hungary: the EU coordination documents focus on objectives, and their arguments are generally evidence based. This policy cycle could have a direct impact on the domestic, governmental decision-support and decision-making process, as it requires the preparation of several policy documents that the government would not otherwise prepare (or would prepare significantly later or in a different way). The frequent delays between, and the different content of, documents addressed to the EU and to the Hungarian public suggest that the two processes are not in harmony. The documents prepared for the Commission often reveal their fragmented preparation and implementation.

EU accession necessitated adjustment of the system of employment policy measures to EU regulations. That would have been a good opportunity for comprehensive reform. If there had been political will, as well as civil service capacity and intention, it would have been possible to introduce a simplified, more purposeful and efficient system of employment policies. The chance was missed.

The administration of the Structural Funds requires extremely stringent and detailed financial and content planning. The programmes financed from the Structural Funds have more visibility than those implemented from national funding. The use of Structural Funds is governed by pre-defined, formal framework regulations. Therefore strategic and operational

\textsuperscript{47} EU accession already had an effect on policy making before it took place, e.g. the Public Employment Service was modernized in a PHARE twinning programme. The EU wanted to ensure that this priority institution was adequately reformed, or was at least approaching that state, by the time of the accession. Therefore it not only aimed at modernizing it, but also commissioned experienced experts to elaborate the objectives to be achieved.
documents are needed to align the content, implementation and funding of the projects and to divide implementation into technical stages. Hungarian government measures are usually not that well prepared or well implemented. The macro-level convergence and reform programmes translate into Operational Programmes and action plans for distributing hundreds of billions of Forints from the Cohesion Funds.

The transparency of employment policy measures funded from the Structural Funds is also important because in the case of interventions financed from national sources (the Labour Market Fund) there is little documentation published and their evaluation is also insufficient. Since significant programmes were entirely funded from the Human Resources Development Operational Programme (HRDOP) and the Social Renewal Operational Programme, these have become much more transparent. As opposed to nationally funded projects, those financed from EU grants have obligatory indicators – ideally output, outcome and impact indicators. Non-fulfilment places the beneficiary in an exceedingly difficult financial situation; therefore such indicators are defined carefully. Their mere existence represents great progress in an environment where neither the preparation nor the implementation of policy measures is as detailed as is required under Structural Fund regulation. In addition to monitoring the achievement of indicators, the government agency in charge (typically the National Development Agency) may also decide – and has often decided – to commission a professional programme evaluation. Such evaluations are rarely organized for interventions financed exclusively from national resources.

After 2004, because of EU requirements, policy makers were under pressure to systematize and provide information. Anyone who wishes to implement policy measures with the assistance of funding from such sources cannot avoid thinking structurally (or at least giving that impression). This also has a disciplinary effect on politicians: they have to be aware that (at least some of) their measures are known to the public early on. This is very different from nationally funded and pre-accession measures.48

2. The policy learning infrastructure in Hungary

The 1991 Act IV on “Job Assistance and Unemployment Benefits” established the regulation of the present PES (Public Employment Service) foundation. Between 1991 and 1994 the Central Employment Office led the PES directly and, from 1996- central office play a coordinating and methodical support function in PES.

In 2001 National Employment Office (NEO) was founded, tasks belonging to the office: (amongst other)

i) execute the statistical data processing, analytical and information dissemination tasks based on the registers of the Public Employment Service,

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48 As an unfortunate side effect, due to the special governance structure, technical supervision during implementation may conflict with maintaining the absorption capacity (i.e. spending the funds), which is not always resolved.
execute the tasks connected to the preparation and analysis of labour market forecasts and statistics and provide for the dissemination of any information of public interest based on these.

The research role included three important fields. Firstly, it organised and ordered research; secondly, as a decisive actor of the labour market, it provided an empirical basis and supplies data, information, empirical knowledge not available elsewhere for research supported from other sources. Thirdly, the Employment Service and the National Labour Office itself conducts surveys, research and analyses.

The data collection and researches on employment and employment policies were initiated from or conducted by the main office of the actual public employment service. This central employment organization from 2001 on published a yearly report on all activities of the Office, amongst other on research findings as well. It surveyed the achievements of the previous year and reviewed previous plans and programmes in a systematic way. The „Labour Market Year Books - National Employment Service” was published in 2001, 2006, 2007, 2008, 2010, and 2012–2013 - detailed contents can be found in the ANNEX (pp 77-81). The Labour Research Information System (Hungarian abbreviation: MUKUTIR) database, offering electronic access to the summaries of the contents of the research projects, was activated in the second half of 2007: http://mukutir.telco-system.hu

Table 2 The organogram of the National Employment Office of the Hungarian Public Employment in 2006

In 2014 in the structure of the new National Labour Office the *Research and Analysis Department* was responsible for statistical processing based on NES records; performing analytical and information tasks; taking care of the long-term development and maintenance of the statistical system; and coordinating data surveys related to short-term labour market forecasts. It gathers representative data on the trends of wages and salaries annually and performs model calculations to inform wage policy decisions. Furthermore, importantly, it has to coordinate and enhance the system of monitoring active labour market policies, which includes participation in different programme evaluation, impact assessment and monitoring projects.

As of 1 January 2015 the National Labour Office was abolished by the government as part of radical changes to the Hungarian Public Employment Service. The Government said the NMH, which managed the service, was not building an effective bridge between employers and job seekers. The social partners were not consulted on the changes.

The action was part of a governmental restructuring project. Viktor Orbán's government (in power since 2010) began a profound restructuring of the Public Employment Service in 2011. Some 20 county labour centres and 170 branch offices were amalgamated with county government offices. The labour centres had been prestigious state authorities with distinct responsibilities at county level, and were managed and coordinated by the Central Employment Office (FH). They have now become one of 17 departments run by the local government offices.

The Public Employment Service was also renamed the National Employment Service. The prime mandate of the service remained the same:

- to assist job seekers and employers;
- to implement various active labour market measures;
- to support the unemployed.

The Central Employment Office (FH), under the direction of the Ministry for National Economy, continued to manage new labour centres. However, the centres’ direct dependence on FH was weakened as they were now also under the aegis of the county government offices, and were becoming more embedded in local government policies and actions.

The management and operational structure of the National Employment Service became even more complex in mid-2011, when the Ministry of the Interior took charge of public works programmes and began working directly with county labour offices in planning and running such programmes.

In 2012 the FH, the health and safety inspectorate (OMMF) and the National Institute of Vocational and Adult Education (NSZFI) were merged to form the National Labour Office.

The office remained under the supervision of the Ministry for National Economy, while the county-level branches of the health and safety inspectorate were attached to the county government offices.

This overall integration was done primarily for budgetary reasons; the money saved by cutting staff numbers at central and county levels was intended to help the government achieve its budget deficit reduction objective for 2012.

It was a huge change. NMH (National Labour Office) had:

- been the central body of the national network;
- coordinated the overall professional and technical development of NFSZ (National Employment Service);
- worked out the service delivery procedures, methodological guidelines and professional recommendations for providing a good quality national service;
- run central labour market schemes;
- coordinated, if not implemented, the employment and training programmes financed from EU funds;
- been responsible for issuing work permits to third-country nationals;
- been the Hungarian partner of the European Employment Service (EURES);
- provided labour market statistics on collective agreements, salaries and wages;
- coordinated the outsourcing of labour market services;
- acted as the licensing body and a partner of private job placement agencies.

NMH had also housed the secretariat for sectoral social dialogue committees and was responsible for the Labour Arbitration and Mediation Service (MKDSZ).

In January 2015 the Orban government, which had been re-elected in 2014, launched the State Reform II programme which includes measures to: simplify public administration; reduce fees for services provided by government offices; introduce career path models for civil servants.

The NMH was closed on 1 January 2015. The Ministry of the National Economy took charge of:

- employment and labour market-related activities, safety at work and overall labour inspection;
- labour centres (although they remained part of the local government offices);
- a new department, the National Office for Vocational and Adult Training.
Responsibility for occupational health and work hygiene issues was taken over by the government’s Chief Medical Officer under the aegis of the Ministry of Human Capacities (EMMI).

The Ministry of the Interior kept its direct managerial power over public works programmes administered by county labour centres and branches.

As reported by newspaper Origo, the government said it had been forced to close NMH and share out its remit because “it was not building a bridge between employers and job-seekers”. In a formal statement, the government said the restructuring would increase the efficiency of labour market processes, and help keep unemployment low. It added that a new structure was needed to help the government achieve its target of full employment.

In the commentary the author (Kiss 2015) pointed out that all EU Member States have a public employment service and many are being reorganised as governments seek to improve their effectiveness. However, there have been frequent and profound structural changes to Hungary’s relatively new service, the NFSZH, in recent years, without allowing much time for staff to adjust and develop new operational mechanisms. This has meant the expected benefits of the changes could not be achieved.

The latest restructuring, which has included the abolition of NMH and the dispersal of its power and responsibilities, has meant the loss of a traditionally strong and centralised employment service management. County labour centres now receive instructions from various ministries. There are likely to be difficulties in providing a consistent national service especially in:

- labour centres whose professional management had to date been uniformly defined;
- the capacity for labour inspection, which has been shrinking.

The ministries concerned (the Ministry of the Interior, the Ministry of Human Capacities and especially the Ministry of the National Economy) also face challenges; they are supposed to combine their strategic and policy-related responsibilities with new operational tasks, and to take on considerable administrative and managerial tasks that do not fit naturally into their portfolios.

Without a central body, international cooperation will also become more difficult. For example, it will be hard for Hungary to take part in meetings of the heads of Europe’s national public employment services or of the World Association of Public Employment Services (WAPES). Engaging in mutual learning in the framework of the Public Employment Services Network or of the Partnership between Employment Services (PARES) will also be difficult.

The other important source of information regarding employment policy is Hungarian Central Statistical Office (HCSO) http://www.portal.ksh.hu providing census and micro-census data, data on employment from domestic data-surveys and from Eurostat surveys (e.g. Labour Force Survey), there are occasionally ILO data used by researchers , Eurostat. There are further research institutes: Corvinus University of Budapest – Department of Human Resources; TÁRKI (Social Science Institute of Budapest); Budapest Institute and Institute of Economics;
Hungarian Academy of Sciences - Research Centre for Economic and Regional Studies, Hungarian Academy of Sciences [http://www.econ.core.hu/eng/index.html];

The Institute of Economics, Centre for Economic and Regional Studies, Hungarian Academy of Sciences together with the Department of Human Resources, Corvinus University of Budapest published a series: *Budapest Working Papers on the Labour Market BWP*, and the Institute of Economics, Centre for Economic and Regional Studies, Hungarian Academy of Sciences itself publishes the series of *Hungarian Labour Market* from 2002 up to now. The late Labour Office and its legal predecessor also had the series of the *Labour Market Yearbook* came out first in 2001 and then had been published five times until 2013.

Besides the administrative data collection there are qualitative researches, and one-off data collection in small sample survey research, these usually lack the representativeness and are conducted by civil organizations having scarce resources: Esélylabor Egyesület (Opportunity Lab Association) [http://www.eselylabor.hu/] and its member organizations and Pro Cserehát Association [www.pillangokutatas.bffd.hu] or the Hungarian Anti-Poverty Network [www.mszeh.hu] all published papers, reports on mainly qualitative researches conducted in micro regions.

### 3.1 The role of policy learning in the adoption of START Programmes

This package of policy started in 2005 and ended in 2014, this decade long carrier of this measure on the one hand is due to its innovative flexibility – having the old means applied for another new target groups and on the other hand to the financial support coming from European Social Fund.

The story of this policy started with a failure of another one: with the *Act CXXIII of 2004* various incentives were introduced that promoted the employment of school leavers as of January 2005. These included the paid internship and the 50% reduction of social security contributions that make the hiring of young people more attractive for employers. It turned out, however, that employers did not consider the level of support high enough. They also found the whole procedure overly bureaucratic, including the fact that the subsidy was reimbursed at the end of the 9-month period and that there was a requirement to maintain the employment relationship after that point. The first *START card* (without further indicative) was introduced in reaction to these complaints, subsidies introduced at the beginning of 2005 were replaced by the START Programme valid from October 1, 2005.

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51 The detailed description of the innovation see here: “In depth analysis of the implementation and development of policy innovations. Country report – Hungary” pp 19-25

52 *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.*
The subsidy could be taken up on the basis of the so-called START card issued by the tax authority. This card certified 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) were eligible to receive the card and use it for regular employment or paid internship. The START card could 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 was no obligation to maintain the employment relationship after the termination of the discount.

The Hungarian wage subsidy scheme which was first introduced in October 2005 for school leavers (START card) later was extended to various subgroups among the long term unemployed. The START programme – the extension of contribution discount - was initiated by the Ministry of Social Affairs and Labour (the legal predecessor of the present Ministry of National Economy) in 2006. The initiative based on earlier experience on the labour market and addressed the recovery of labour market demand. The overall employment rate in Hungary (57.3%) was the third lowest in the EU in 2007, with the participation of young and older people and other disadvantaged groups being particularly low. EU level documents and recommendations supported this view and recommended appropriate labour market policies and the European Social Fund provided the financial support.

Table 3 Rules of the various START schemes at the time of introduction

<table>
<thead>
<tr>
<th>Name of the START scheme</th>
<th>Amount of subsidy (% of total wage cost)*</th>
<th>Ceiling on subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>START (young entrants)</td>
<td>1st year - 14%</td>
<td>1.5x minimum wage (2x for the graduates)</td>
</tr>
<tr>
<td>from Oct 2005- Dec 2013</td>
<td>2nd year - 7%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Program</th>
<th>Description</th>
<th>1st Year</th>
<th>2nd Year</th>
<th>Employment Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>START PLUS</strong></td>
<td>(parents returning to work, long-term jobseekers)</td>
<td>1st year–14%</td>
<td>2nd year – 7%</td>
<td>2x minimum wage</td>
</tr>
<tr>
<td></td>
<td>from July 2007- Dec 2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>START EXTRA</strong></td>
<td>(older persons, persons with low education)</td>
<td>1st year–25%</td>
<td>2nd year – 14%</td>
<td>2x minimum wage</td>
</tr>
<tr>
<td></td>
<td>from July 2007- Dec 2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>START BONUS</strong></td>
<td>(registered jobseekers for at least three months or persons take up paid employment within a year after claiming parental benefits or carer’s allowance, or —after the first birthday of their child while still claiming child care allowance)</td>
<td></td>
<td></td>
<td>The tax relief is 27% of the pre-tax wage and this can be applied to wages up to 150% of the minimum wage in the first year of employment. Employers can draw on the tax relief if the employment period is longer than 30 days and the working time is no less than four hours per day.</td>
</tr>
<tr>
<td></td>
<td>Jan 2012 – Dec 2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>START REGION</strong></td>
<td>(people claiming Stand-by-Allowance)</td>
<td></td>
<td></td>
<td>fully exempt from social insurance contributions for 3 years with the condition that increases workforce</td>
</tr>
<tr>
<td></td>
<td>Jan 2009-2012</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The funding of the programme is based on the European Social Fund in 85% and related domestic resources in 15%.

The START card has special position among the other START schemes, because of the financing background and of its consequences. According to expert opinion (Frey, 2010) with regard to the characteristics of young people employed with a StartCard, there was extremely limited information. An evaluation study would have been necessary to establish how many young people would have found a job without the subsidy, or differently what is the deadweight effect of the scheme? The only available data suggested that 12–13% of the employers are public sector organisations. There is more detailed information on the characteristics of young people employed with a StartCard.

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54 Introduced in the most disadvantaged small regions and localities in 2009.
participants in the *Start Plus and Start Extra schemes* because these are both financed by the European Social Fund and it is a requirement to monitor these programmes and organise their on-going evaluation and employment impact assessment.

Nevertheless there were some scarce research evidence in the case of wage subsidies and repeated cuts in employer contributions: based on estimates of the wage elasticity of labour demand – it might have rendered probable that these had contributed to an increase in employment (or at least to curbing its decrease) (Kertesi and Köllő, 2003; Kőrösi, 2005; Tarjáni, 2004; OECD, 2010).

During the programme the employment rate in Hungary did not change significantly (was approximately between 57-55%). Nevertheless the wage subsidy approach flourished regardless of this statistics. It was assumed (and hardly proved) that without these measures the employment rate would have been significantly unfavourable.

**Figure 1** Employment rate in Hungary, 1990-2010

![Employment rate in Hungary, aged 15-64](chart.png)

The START programmes – according to the summarizing reports of Ministry of National Economy – was a success. The target values of the main success indicators were: the number of employed people and the number of people employed six month after the subsidized period expired. The target value was 170 000 persons and it was over-achieved by 44 518 heads (which means 125%). Furthermore more than two-third of the persons involved in the programmes were employed six month after the subsidized period. However the accuracy of the aiming is not known. During implementation, the targeting of the complex programmes often shifted slightly towards younger and better educated job seekers. This could be the result of the self-selection of the participants and the selection practice of the offices, but the relative importance of these cannot be revealed on the basis of the available data. Although all these biases could help to produce this honourable value of the main indicators.

Learning always stems from the superior authority, at lower level (below ministries) officials do not even know about the alternatives, decision, the possible conflicts or veto at
the beginning of a program: “Guiding principles, everything came from the ministry. ... the local offices of the PES (Public Employment Service) collected the data for the analysis of the initial stage, ... the economic and political circumstances were favourable for the introduction and it was the main interest of the government. The implementation of the policy was based on legislation and took place according to the law enforced cooperation of the PES offices and branches.”

It is also common that they cannot name researchers or studies connected with the programmes in which they act as executors. The term to describe that phenomena is that they “were not informed” officially on those and it seems that they do not have the time, energy or self-motivation to read them. While researchers and officers at ministry levels know about researches and findings and regularly attend dissemination events, conference at EU level.

3.2 The role of policy learning in the adoption of Public employment programmes

The “Pathway to Work” scheme

The “Pathway to Work” was a complex scheme that started on January 1, 2009. It aimed to help people claiming regular social benefits to return to the labour market. The target group of approximately 200 thousand persons is divided into two groups. The group that had no chance – at least in the short-run – of returning to work will continue to receive Regular Social Allowance. The other group however, is made up of people who are capable of and expected to work. If there are no vacancies on the open jobs market, they can join public works schemes and receive a regular wage instead of benefits. The number of early school leavers is estimated to be around 7–8 thousand. They were required to finish school so that at a later stage they can take part in vocational training or job training. Eligible people of working age, who were prevented in taking part in any of the active schemes for reasons not attributable to them, could claim Stand-by Allowance.

Table 4 Eligibility for cash benefits for people of working age

<table>
<thead>
<tr>
<th>Regular Social Allowance (RSA)</th>
<th>Stand-by Allowance (SA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Long-term health condition prevents employment&lt;br/&gt;– Aged over 55 years</td>
<td>– Not eligible for Regular Social Allowance&lt;br/&gt;– Unable to find paid work due to a shortage of jobs</td>
</tr>
</tbody>
</table>

55 The detailed description of the innovation see in: “In depth analysis of the implementation and development of policy innovations. Country report – Hungary” pp 25- 33
57 3 Act CVII of 2008 on the Amendment of Certain Social and Employment-related Legislation. The Act was ratified by the Parliament on December 15, 2008 and it amended the provisions of Act III of 1993 on Social Administration and Assistance.
According to the new regulation, the eligibility of all individuals of working age claiming Regular Social Allowance on December 31, 2008 had to be re-assessed by March 31, 2009. If they were no longer eligible, the payment of the benefit was terminated. Otherwise they continued receiving either the new Stand-by Allowance or the Regular Social Allowance. Eligibility for working-age benefits must be re-assessed at least every two years.

People claiming Regular Social Allowance – except those with a long-term health condition – are required to cooperate with the institution designated by the local government – usually the local family support service – if they want to retain their eligibility. The exact content and form of this cooperation was set out in the Reintegration Agreement and can include skills upgrading, lifestyle counselling or training.

The Pathway to work programme had its antecedents; in Hungary on average 30–40 thousand people worked in some form of public works each year between 1996 and 2008. This number increased to 60–100 thousand after 2009 and in 2013 it surpassed 130 thousand. This means that on any given day of the year, on average 10–14 per cent (21% in 2013) of the registered unemployed were employed in public works programmes, and this was approximately equal to the total number of people in re-training, wage subsidy and other active labour market programmes. The total cost of the various public works programmes was around 0.1–0.2 per cent of the GDP before 2008, which increased to 0.2–0.5 per cent after the launch of the “Pathway to Work” programme (Scharle, 2014) The public spending was 0.39% on public works in Hungary in 2010 and funding for the public works scheme has quadrupled over the past four years and now costs 0.8 percent of Hungary’s GDP. Forecasts estimate the cost of the public works scheme to double to 1.6 percent of GDP by 2018. The number of participants in public works programmes is also extremely high. In Hungary 2.4 per cent of the active population worked in some form of public works in 2010.

There have been public works programmes in Hungary since 1987. Similar public works programmes, although under different names and somewhat different conditions, were run by local councils from 1987, then by labour offices/centres from 1990, by the Public Works Council from 1996 as well as by municipal governments from 1997. However, their scope reached this spectacularly high level only after the launch of the Pathway Work programme in 2009.

The introduction of the Pathway to work scheme happened under favourable circumstances. At the end of 2000s the public works schemes were obviously attractive to governments: they provided popular solutions, as opposed to unpopular benefits, and mayors also liked them. (Back in 2000 this may have been the reason for introducing public works

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58 More precisely, the number of people employed in public works programmes was compared to the sum of registered unemployed and public works participants.
organized by municipalities (which at the time was opposed by the Socialist Party). Prime Minister at that time, Ferenc Gyurcsány realized the political necessity of such a programme from 2007, but he failed to get a feasible policy proposal from his minister, Mónika Lamperth. Considering the opposition to large public works schemes on the part of civil servants in the ministry, it is possible that the launch of a programme was delayed by resistance in the ministry. Then Erika Szűcs was appointed by the prime minister, and she did implement the plan. This case reveals a lot about employment-policy decision making. The policy based opposition of the portfolio’s experts was enough for some obstruction, but it was not enough (especially not in the late 1990s and late 2000s) to persuade politicians to inform the public or to ensure that the government did not select an inefficient policy instrument to achieve its political goals.

As of September 1, 2011 the regulatory framework of public works were aligned with the conditions of unemployment assistance. A new type of employment relationship was created, the public works contract that removes participants of a public works program from the coverage of labour legislation in many aspects (such as the statutory minimum wage). Different types of assistance are available for public works programs. Assistance can be paid for short- and long-term and nationwide public works program. Public interest agency work is also eligible for assistance if it employs people claiming income replacement assistance and also provides training and mentoring. In these cases the assistance equals to the amount of public works minimum wage. Furthermore, any employer recruiting workers claiming income replacement assistance is eligible for assistance; these workers should be paid the statutory minimum wage and there is also a requirement of continued employment.

In the 2013 volume of Hungarian Labour Market regarding public employment, authors reported on “the fine tuning of the public works scheme” (Busch, Cseres-Gergely & Neumann, 2013, pp 281-28). The employment in public works was the largest active measure, this included short- and longer term public works, national public works projects and Start-work demonstration projects at the level of small regions. The working time increased more than four hours per day in the majority of projects in 2012 – based on experiences from 2011. It also includes mobility assistance for public works as well as assistance for businesses to employ people claiming out-of-work assistance.

Public works programmes continue to be managed by the Ministry of the Interior, the Ministry for National Economy is responsible for managing the public works appropriation of the National Employment Fund (previously the Labour Market Fund, LMF) and undertaking financial commitments. Job centres are responsible for the contracting and payment of public works employers and employees. Funding comes from the public works appropriations of the National Employment Fund, and the appropriations of the SROP 1.1.2/1.1.4 programmes – for related training programmes. The demonstration programmes that had started in 2011

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59 Legislation regarding the new system: New legislation: Rules after January 1, 2011 were laid down by Government regulation no. 375/2010 (31. 12) on Assistance for Public Works; rules after September 1, 2011 were defined by Act 106 of 2011 that also amended a number of other acts such as the Employment Act and Labour Code. Further rules can be found in: Government regulation no. 170/2011. (24. 08) on Wage Setting and Statutory Minimum Wage in Public Works and Government regulation no. 171/2011. (24. 08) on the Amendment of Certain Government Regulations in Relation to Public Works.
continued in 2012: in the 94 small regional Start-work demonstration programmes more than 1,600 settlements and approximately 66,000 workers participated in the first eight months of the year (National Labour Office data).

Changes in legislation make it possible for Start-work demonstration projects (mainly agricultural projects) to become self-supporting and establish social cooperatives, and under certain conditions equipment purchased in demonstration projects can be transferred to social cooperatives. Currently the aim is to establish social cooperatives over the next two years60; the elaboration of details is still underway. There are approximately 300 social cooperatives in Hungary and around 40 demonstration projects might become self-sustaining and turn into social cooperatives in the future61.

According to current regulation, people in public works programmes are employees in some respect: they pay pension and health care contributions, they are entitled to sick leave and annual leave, however their pay is somewhat under the statutory minimum wage.62 Municipal governments can organise public works programmes for activities that promote the “public good”, except for core municipal tasks. Therefore, for example health visitor, nursery worker and social welfare officer jobs cannot be filled with public works employees. Public works provides cheap labour, but only that. Therefore it only represents good value for municipalities if it is used for tasks that do not require substantial capital, highly specialised skills and expertise, or major organisation and management. On the one hand, this encourages local communities to use highly labour intensive technologies to carry out the tasks that are most useful to them. On the other hand, it also encourages them to choose projects that can be efficiently accomplished using mainly manual labour. In the first case, the municipality is contributing to the public good, however in a wasteful manner. In the second case, although they are using their resources efficiently, there is no guarantee that they are carrying out tasks that are most useful for the public. Whichever option municipalities follow, the sub-substantial amount spent on public works fails to maximise the public good. “63 (Scharle, 2014 pp 56-57)

As it can be seen from the above introduced short story of the Hungarian public employment changes, amendment and adjustment of the programmes has been present from the beginning, nevertheless the direction of the changes cannot be tracked from the side of evidence based employment policy knowledge. The problem with Hungary’s public works

60 Details can be found here: http://www.szocialisgazdasag.hu/en/?mod=mainpage&cla=mainpage&fun=access&temp=fooldal
62 Another difference is that (unlike regular employees) if they refuse to take part in public works (or hand in their notice and leave) they cannot re-register as unemployed and claim benefits for 60 days.
63 Public works programmes are not inspected on a regular basis, which might create an opportunity for fraud; however this is not related to the size of the programmes or the number of participants, therefore it was not considered here.
scheme, (as it was also mentioned by European Commission\textsuperscript{64}), is that the Hungarian government still has not defined what it hopes to achieve.

Or to put it more precisely, when the target is not achieved the decision makers and governmental communicators will change the target. Regarding public work the original rhetoric talked about assisting in the transition of the unemployed to the active labour market, and when research findings showed that only about 10-13\% of the participants were employed after the programme, the focus had changed. The new topics of the public communication are the socialization for work, or the creation of value in municipalities where the public work takes place, or the justice principles of workfare approaches: allowances are free while in public employment project people have to work for their wages so the majority society do not have to support lazy loafers.

While criticism of the programme\textsuperscript{65} objects to not taking research findings into consideration. The evidence on the impact of measures to boost demand is more mixed. Detailed impact analyses on public works suggest that increased expenditure on such programmes does not reduce – and may even slightly increase – long-term unemployment (Köllő and Scharle, 2011). One of the paradoxes of Hungarian employment policy is that, while the relevant literature considers public works (and especially large-scale public works) to be one of the least efficient active labour market policies, in Hungary its volume had increased dramatically by 2009–10 and from that time on. According to media analysis, acceptance of this solution by the general public has increased gradually over the past two decades.

This phenomenon provide an explanation for the adjustments of the programmes which was rather influenced by the political interests of the ruling parties than any research findings or statistics – except the lower unemployment rate; the taste and preference of the electorate shaped the aim of the project or rather determined the topics of the communication about the project.

While the “fine tuning”, the implementation of the consecutive adjustment contains policy learning in traces, in narrow technical sense, there is no sign of evidence based approach, partly because of the moving character of the targets.

At the ministry level the idea of public employment came from the general expert experience – it was not innovative in the sense that in many other countries certain form of public work existed and it usually served the aim of providing job experience and to ease social tension, it started as a transient solution. From the beginning the public work has a very low reintegration function compared to other active labour market means. Inside the policy institutions it was not popular, the county Public Work Councils for instance even claimed that public work withhold manpower from the labour market and companies could not find employees because they were employed in public work. The employers complaint trigger also a new effort for amendment the public work regulation in order to provide

\textsuperscript{64} The European Commission invited Hungarian, Polish, and Slovakian, governmental and non-governmental experts, as well the European Commission director general on employment affairs, to participate in the discussion concerning active labour markets.

\textsuperscript{65} [http://budapestsentinel.com/articles/ec-criticizes-hungarys-rudderless-public-works-scheme/]
opportunity for employers in agriculture to get the manpower they need for seasonal jobs. Nevertheless at the same time solidarity also functioned, mayors did their best to spread the public work opportunities in a way that everyone could get the eligibility for social allowance. Roma ethnic organizations leaders did not like the idea either, they thought ethnic minority is the victim of exclusion from “normal” job into the public work. Some experts consider public work racist because of that character.

The annual conference of the Public Work Council and other domestic conferences for the experts working on this field provided the forum for learning about experience and new ideas. In the interviews it was also explained that cancellation of this programme is almost inconceivable and would probably cause anarchy because so many people are dependent on it. Although knowledge acquired that way did not appear necessarily in any policy change.

The Ministry of Interior Affairs organize workshops for expert from other EU member states to introduce the Hungarian public work programme, in this regard this is the learning of dissemination of a more or less unprecedented programme.

### 3.3 The role of policy learning in the adoption of Labour Code 2011

The new Labour Code was adopted in December 2011. Major work on the re-conceptualisation of labour legislation was commissioned by previous governments before the crisis; however, for political reasons this has never reached legislative stage. In 2010, however, the freshly elected right-wing Orbán government placed the re-legislation of the labour code back on the agenda. The government aimed for a new labour code which 1) makes the regulation of the working environment flexible in order to convert Hungary into one of the most competitive economies in Europe, and 2) cuts the traditional rights of unions to a minimal level, which would allow little more than their mere existence in workplaces.

It was argued that the need for a new Code was justified by changes in the structure of the economy since 1992 (the dominance of private ownership, the share of small- and medium sized enterprises, the spread of atypical forms of employment, increased demand for flexibility) and the failure to meet the original legal and policy objectives from 1992 (expanding the playing field of collective agreements). The new law was also justified by tasks arising from the harmonisation of EU law, and its Preamble even refers to the European Commission’s Green Paper on Modernising Labour Law in the 21st century based on the EU’s Lisbon Strategy (EC, 2006) as well as academic debates and legal solutions in Member States. These highlighted legal measures necessary to create flexible employment conditions while maintaining the social security of workers. *The main direction of the Labour Code that entered into force in 2012 – similarly to the amendments of the old Labour Code – is aimed at increasing the flexibility of employment*; however it also creates a new conceptual framework

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66 The detailed description of the innovation see in: “In depth analysis of the implementation and development of policy innovations. Country report – Hungary” pp 34-39

67 According to the original reasoning - when in 2004, the then governing left-liberal coalition government had initiated a complete re-drafting of the labour code - a more flexible legislation would allow for a reduction of the amount of undeclared work and would also help companies to be more competitive. The preparations for the new code, however, were abandoned by the government because unions vehemently rejected the concept of the re-legislation, arguing that it aimed to weaken workers’ rights.
for this. Although the Government published the proposal in June, consultations with trade unions were protracted.

In terms of legal theory, the main innovation of the new law is that it shifts the approach of the regulation from public to private law. With regards to the flexibility of individual employment, the new law makes it easier to change the quantity of labour (external and internal numerical flexibility). As for the regulation of industrial relations, the new labour code puts unusually large emphasis on agreements between employers and unions and on making them key partners so that employers are able to achieve the full flexibilisation potential of the new code. Nevertheless the new law could not achieve a fair compromise between flexibility and the legitimate interests of employees concerning security. On the contrary - one of the main aims of the government was to cut unions’ rights down to that of mere existence.

The consultation process was far from being perfect. The draft of the earlier Labour Code in 1992 was negotiated with a view to reaching a compromise with social partners in the standing tripartite body. The re-legislation of 2012, however, was marked by selective and half-hearted negotiations on the part of the government. The key for the selective negotiations was that in March 2011, just before publishing the draft of the new labour code, the government disbanded the standing tripartite body. This created an institutional vacuum which made it possible for the government to carry out a selective consultation process.

There were no preliminary experiments or analysis, nobody raised that claim, only the opinion of lawyers (especially the experts to whom the job of the codification was outsourced from the Ministry of National Economy) counted.

Three were many amendments compared to the first version, the employers supported but the trade unions had to turn to the European Committee and the ILO in order to have social consultation and keep to the earlier signed international treaties. The process of consultation never covered wider groups of stakeholders, it was typical that the new Code was passed into law on the very day when there was the first conference organized for the legal profession representative in order to introduce the new law and discuss with them. The two thirds of final version of the new Labour Code retained the text of the old one.

The interviewees also confirmed that the new law cannot be considered user-friendly. A number of earlier provisions are not set out in detail and their applicability can only be inferred from other articles, the justification of legislation and related legislation – such as the general principles of conduct or the Civil Code. The present impact of the new code is that there are much less cases brought before the court (advocates and their clients cannot take the risk under this uncertain circumstances) and the other – also because of the lack of details (statutory provisions) supporting the practice of the law – that court cases take much longer because judges are irresolute and when it is possible waiting for the judgement from the High Court of Justice. In this way the practice of law will be formed by (literally) “trial and error” which is time and energy consuming.

The policy learning in this case also happens without clear aims (there was no benchmark set regarding labour market flexibility or atypical work), without feedback (it has
not been measured whether the target has been achieved or not) and under technical virtuosity of experts (the outsourced codification task was executed by acknowledged lawyers whose primarily focused not on the final aim but technical details inside the legal system), influenced strongly by power relations (the two-third majority government decided) and lobby interest might also play a role. Regarding the legacy of the earlier Labour Code: the two thirds of final version of the new Labour Code retained the text of the old one.

When trade unions had to turn to the European Committee and the ILO in order to have social consultation and keep to the earlier signed international treaties the policy learning was forced by international sanctions and not by insight based on evidence. It is not clear whether it was mere compliance or learning and if it was learning, the acquired knowledge was about policy (in that case the new law) or about the power of that actual trade union or about the EU institutions.

The “trial and error” type learning in which way the practice of law is being formed by, is time and energy consuming and because the success depends on the reactions of courts and not impact studies findings, this instrumental conditioning will not help the adaptation to the aims set for the policy. Although at behavioural level the actors can learn useful solutions, e.g.: how to access and use the power of international authorities, or how to practice the tactics of waiting out.

4. General conclusion

The three examined policies vary in their character; the antecedents of public employment programmes and the START (wage subsidy) programmes have very long history in the Hungarian employment policy. While the third innovation is a law (and also have antecedents) and the way of policy learning in this case is determined mainly by the characteristics of the actual legislation. The path-dependency in this sense is characteristic to all the three measures in the sense that it narrows the arrow of choice and the examined alternatives.

While the learning infrastructure of employment policy in Hungary is (or at least up to now has been) well established; When in 2001 the National Employment Office (NEO) was founded the following tasks were assigned to the organization: execute the statistical data processing, analytical and information dissemination tasks based on the registers of the Public Employment Service and execute the tasks connected to the preparation and analysis of labour market forecasts and statistics and provide for the dissemination of any information of public interest based on these.

The Office organised and ordered research, provided an empirical basis and supplied data, information, empirical knowledge not available elsewhere for research supported from other sources and the Employment Service and the National Labour Office itself conducted surveys, research and analyses. As it was also discussed in the second section of this document there have been quality papers, reviews, yearbooks published each year on employment policy. There were a circle of expert researchers present and also civil servants with gradually
decreasing autonomy and expertise and narrowing focus of employment policy issues – not discussing policy alternatives based on evidence but concentrating on the means and ends of a specific policy.

Policy learning in general is also influenced by international organizations (e.g. ILO, OECD, World Bank) and the accession to the European Union in 2004 was decisive. Although the culture of policy making and implementation has shaped a lot during the last decade there remained a lot to learn. The criterion of setting goals, indicator target values, success criteria and make them measurable is generally accepted. Nevertheless to get grounded evidence in order to make a rational choice between policy alternatives is not a common practice. The research institution are able to produce these studies but there is no demand for this service.

Interest groups, especially trade unions which are embedded into international networks can promote policy learning by using their networks and refer to international treaties and standards, as it was in the case of the new Labour Code.

Civil organizations also contribute to the general knowledge on employment policies. Qualitative researches conducted in micro-regions on complex issues such as public employment programmes combined with the structural reform of unemployment/job-seeker allowance and social allowance also could help policy makers to understand the context.

Typically neither of the political parties refer to research finding, sometimes basic statistics of the Hungarian Statistical Office is mentioned but there is no sign of deeper interpretation on the field of politics. Employment policies with the exception of the recent mass public employment are not discussed in public.

The main policy learning principles in the examined policies were: failure (this triggered to launch the Start programme) and trial and error (in the case of the application of the new Labour Code). Observational learning from the European Union works mostly when there is also a sanction and usually superficial.

The strongest tendency in policy learning in Hungary is serving the electorate’s taste and will as it happens in the case of public work. The political power relation overwrite any evidence based approaches, civil servants cannot initiate the discussion of alternatives and usually do not have enough time during the permanent reshuffle of the system of employment policy organizations. Losing the power, civil servants or policy experts and their knowledge hardly make impact on policy making.

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ANNEX

The yearbook of the actual Labour Office of the PES from 2007 on includes a section on the research activities of the organization the following lists are excerpts from these yearly report.

2007 - Labour Market Yearbook pp 57-58

Policy researches

„Given the scope of functions of the Public Employment Service, it uses and commissions many empirical research surveys as part of its operation. Owing to the extended activity area of the employment organisation, these cover, in addition to employment issues in the strict sense, also the topics of social policy, employment rehabilitation, youth policy and social interest reconciliation. The national organisation plays an important part in the above research activities in two respects; on the one hand, as research organiser and commissioner, on the other as a decisive actor of the labour market providing a unique empirical field for research supported from many other funds. For example, it is currently the co-operating partner and data supplier of the Short-term Hungarian Labour Market Prognosis (HLMP). Hungarian PES also has a Quarterly Labour Market Survey (QLMS) for the co-operative partners of the local offices. In 2007, the National Employment and Social Office organised empirical research concerning several significant labour issues under the measure entitled Development of the Public Employment Service, the results of which were summed up at a closing conference held in early 2008 and in a volume of research studies published thereafter. The above research projects concerned three major areas:

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68 All the published yearbook (2006, 2007, 2008, 2010 and 2012-2013 can be found here:
– Research on the balance of labour market demand and supply, with demographic forward estimates and a model of the future output performance of the education system.

– Mapping of the macro-economic environment, presentation of OECD best practices and their integration in the long-term Hungarian labour market prognoses.

– Projects aiming at the direct improvement of the professional performance of PES played a part as well, such as the reform of the bases of the monitoring system established in the early 1990s or the specification of the theoretical bases of competency-based mediation demanded by the employers. In addition to research to lay the basis of the extension of the New Service Model of PES, PES-NESO take part in several other research activities closely linked to their activities. Research to support the activity of the Economic and Social Council continued as part of the efforts to foster social dialogue. Similarly to the research volume on the fulfilment of the co-operation obligations of regular social aid recipients, the one on the differences in the municipality routines was also prepared in 2007. A methodological aid was prepared to assist with the work of family helpers. Assistance was provided to upgrade the so-called Employment and Social Policies Databank, including the development of an indicator system based on the EU Labour Force Survey methodology which lays the bases for the comparative analysis of the labour markets of the European Union and of Hungary. In co-operation with the Institute for Social Policy and Labour, PES took part in the research projects implemented under Measure 2.2.2 of the HRD OP and in designing a uniform labour research datastore. Furthermore, the organisation gave ground to the implementation of the programme “Mobilisation of employers and employees to combat harmful alcohol and drug abuse”. Furthermore, the research project to extend the opportunities of flexible employment, the expansion of telework and the fulfilment of the expectations of Hungarian employees engaging in work abroad were also included in the list of supported research.

The results of research carried out here are accessible at the following addresses: www.employmentpolicy.hu, www.szmi.hu/labour, http://www.mmpp.hu, and www.apk.org websites."

2008 - Labour Market Yearbook pp 49

Policy researches

“Research to support the activity of the leaders and designers of employment policy and of the organisations involved in its implementation is funded from a special budget allocated for this purpose on an annual basis. The following research projects were realised in 2006–2008:

– Social dialogue about the pension reform (Financial Research PLC)

– Reforms and reform strivings to transform the pension systems (Financial Research PLC)

– Analysis of the labour market trends in Hungary (HAS Institute of Economics)
– Fine-tuning of regular labour economic data with the help of micro-data (HAS Institute of Economics) – Efficiency testing of Hungarian labour market policies (HAS Institute of Economics)

– “Does it pay to work?” – Investigation of the interest in and propensity for employment of long-term unemployed women (Revita Foundation)

– Motives of the absence from the labour market of inactive persons capable of work (Regio-Data GP) – Further development of a Labour Science Databank (HAS Institute of Economics)

– Studies prepared under the HAS project: “National social dialogue within the framework of tripartism and beyond” (NESO)

– Fulfilment of the co-operation obligation of regular social aid recipients (SZIGE Association of Social Administration Pilot Sites)

– Situation of telework and other flexible work instruments in Hungary (HAS, Research Institute for Sociology)

– Realisation of the migration plans of persons wishing to engage in employment abroad (Kopint TÁRKI) – Labour market consequences and impacts on job-search and placement of the changes of the employment provision system (Budapest Corvinus University)

– Harmonisation of the labour supply prognosis based on the education model and of the county labour accounts (Active Society Foundation)

– Special problems of industries with predominantly female employees (Economic and Social Research Institute Foundation of the Trade Unions)

– The extent of employment (Active Society Foundation)

– Measurement and monitoring of the spread of telework in Hungary (Via D’oro Administration Development Consulting and Service Provider Ltd.)

– The Hungarian social provision system in information society (Via D’oro Administration Development Consulting and Service Provider Ltd.)

The Labour Research Information System (Hungarian abbreviation: MUKUTIR) database, offering electronic access to the summaries of the contents of the research projects.”

Hungarian PES Yearbook of 2010 pp 72-73

Studies

“Az esélyegyenlőtlenséget kiváltó okok és a hátrányos megkülönböztetés elleni fellépés a munka világában [Causes of unequal opportunities and actions against discrimination on the labour market] – BERZERKER BT. DR. TAMÁS GYULAVÁRI, DR. ÁGNES SIMONYI

A középszintű érdekegyeztetés változásai Magyarországon a PHARE projekttől napjainkig, illetve az Ágazati Párbeszéd Bizottságok kapcsolatai a makroszintű érdekegyeztetés
intézményeivel – Civil Európa Egyesület [Changes in middle-level interest reconciliation in Hungary from the PHARE project to our days, and relations between the Sectoral Dialogue Committees and macro level interest reconciliation institutions – CIVIL EUROPE ASSOCIATION] DR. KRISZTINA ARATÓ


Az aktív és passzív foglalkoztatáspolitikai eszközök alakulása, hatásuk a munkaerő-piaci mutatókra [Development of active and passive employment policy instruments, and their impact on the labour market indicators] – DR. MÁRIA FREY

A szociális segélyezés szerepe a segélyezettek életminőségének alakulásában [Role of social aid in the quality of life of the recipients] – HILSCHER REZSŐ SZOCIÁLPOLITIKAI EGYESÜLET DR. PÉTER MÓZER

A felnőttképzés hasznosulása a foglalkoztatásban [Use of adult training in employment] – PRIMARIUS BT. DR. DÉNES KOLTAI, DR. ZSÓFIA SZÉP

A KKV szektor szerepe a foglalkoztatáspolitikában – fejlesztési lehetőségek [Role of the SME sector in employment policy – development opportunities] – BUDAPESTI KERESKEDELMI ÉS IPARKAMARA OKTATÁSI NONPROFIT KFT. GÁBOR KERÉKGYÁRTÓ, DR. TAMÁS JELEN, DR. ANDRÁS GIDAY, KATALIN SZAKÁCS MRS. MIHALKOV

Rendszeres (4 évenkénti) felmérés (survey) kialakítására a foglalkoztatás és a munkaügyi kapcsolatok mikroszintű helyzetéről, alakulásáról – kapcsolódó felmérés lebonyolítása [Regular survey (every 4 years) on the micro level situation and development of employment and labour relations and the implementation of the related surveys] – EMÖCIÓ BT., DR. LÁSZLÓ NEUMANN

A szociális szövetkezetek működési modelljének kidolgozása a foglalkoztatás elősegítése érdekében [Elaboration of a model of operation of social co-operatives in order to promote employment] – BUDAPESTI VÁLLALOKSZFEJLESZTÉSI KUTATÓ INTÉZET, DR. ATTILA ISTVÁN PETHŐ, DR. ZSUZSANNA GYŐRI, BERNADETT NÉMETH, NIKOLETT FEKE, FERENC SIMON

Az első magyar "Munkahelyi foglalkoztatási viszonyok” kérdőíves felvétel első adatfelvételének lebonyolítása [First data collection related to the first Hungarian “Employment relations at workplaces” questionnaire-based survey] – IPSOSMÉDIA-, REKLÁM-, PIAC- ÉS VÉLEMÉNYKUTATÓ ZRT.

Gazdasági érdekképviseletek és kamarák [Economic interest representation organisations and chambers] – PPH KÖZPOLITIKA ÉRTÉKELŐ KFT., GÁBOR BALÁS

A munka világába tartozó érdekképviseletek [Interest representation organisation on the labour market] – COMPLEO TANÁCSADÓ ÉS KERESKEDELMI KFT., ÁGNES SZABÓ MORVAI MRS.
“The research activity of the National Employment Service is rather complex. On the one hand, owing to its functions, it uses and orders many kinds of research during its operation. Such research covers, besides the employment issues, the topics of youth policy and social interest reconciliation, and fields related to the development of the NES activities and services in the broad sense. Research highlighted in this chapter focuses primarily on the topic of employment and on studies related to development of NES. The research role of NES concerns three important fields. Firstly, it organises and orders research; secondly, as a decisive actor of the labour market, it provides an empirical basis and supplies data, information, empirical knowledge not available elsewhere for research supported from other sources. Thirdly, NES and the National Labour Office itself conducts surveys, research and analyses. The most important field of the research-organising and -ordering activity of NES is the So-ROP 1.3.1 programme co-financed with the Union, entitled “Development of the National Employment Service, II”, supporting research promoting the activity of the organisation directly or indirectly. Research funded under this programme concerned the following four main topics:

1. Studies laying the foundations of modernising the functions and activities of the labour market organisation
   - Examination of job placement and labour market services of the National Employment Service from 2004 to 2009 – Éva Berde
   - Evaluation of active labour market policies regulated under the Job Assistance Act and operated by the Public Employment Service and, besides, ALMPs regulated and administered elsewhere, in 2004–2009 – Mária Frey
   - Preparation and evaluation of a municipality survey for the research “Complex evaluation of the active labour market policies” – MP 2002 Gazdaság- és Társadalomkutatási Kkt.
   - Multivariate, control-group-based evaluation of active measures and labour market programmes – Consulting’95 Bt.

Examination of awareness of the Public Employment Service, the degree of satisfaction of the user groups, and the labour turnover share of the Public Employment Service – IPSOS Zrt.
– Synthesising paper to support the long-term strategy of the Public Employment Service with international research experience. Proposals to update the development directions – Mária Frey

– Preparing the activity of the National Employment Service for the new labour market challenges. Proposal for the treatment of employment enhancement within the framework of public procurement - FDNT Tanácsadó Kft.

– Preparing the activity of the National Employment Service for the new labour market challenges. The impact of the changes taking place in the public sector on the individual strategies and through that on the labour market – Forsense 2.0 Kft.

– Public opinion poll on awareness of the lifelong guidance services – Váltópont

2. Research related to the development of the system of lifelong guidance

– Development of a lifelong guidance system in Hungary – A. G. Watts

– Review of the domestic career orientation controls. Proposal for a national-level system of control and financing – Princzinger Ügyvédí Iroda

– Examination of the efficiency and cost inputs of the career orientation/guidance system from the economic point of view – KOPINT-TÁRKI

3. Research concerning the operation and effectiveness of specific elements of the employment policy


– Stimulating the green economy – Lélegzet Alapítvány

– Papers on the economic and labour market situation and possibilities, and on support to promote employment in the cross-border regions – KOPINT-TÁRKI

– Development of temporary work agency and its effect on employment and the economic processes - Dél-Dunántúli Humánerőforrás Kft.

4. Research focusing on creating one million new jobs

– Background papers related to the creation of one million new jobs – compiled by: Ferenc Munkácsy

In 2012 there was also a “Research Yearbook 2011” published by the Employment Office on researches carried out under SROP 1.3.1 www.munka.hu, www.ujszechenyiterv.gov.hu “