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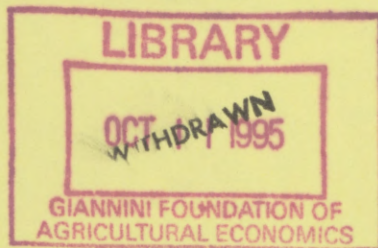
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INTERDEPARTMENTAL PROJECT
ON STRUCTURAL ADJUSTMENT

Occasional Paper 7

Roger Plant

**Labour standards and
structural adjustment
in Hungary**



Interdepartmental Project on Structural Adjustment

The aim of the Interdepartmental Project on Structural Adjustment is to strengthen ILO policy advice in relation to structural adjustment policies in order to make those policies more consistent with ILO principles and objectives.

The project investigates various options to give a different focus to adjustment policies, emphasising major objectives as equitable growth, improved human resource development and social acceptability and it tries to establish how various ILO policies and policy instruments can contribute to such a different focus of adjustment policies.

The range of policy instruments encompasses labour market regulation, social security, wages policies, training policies, industrial relations as well as the employment and income effects of monetary, fiscal and price policies. Greater involvement of the ILO in the area of structural adjustment needs therefore to reflect the interdisciplinary nature of the adjustment problem by combining activities from different departments in the ILO.

During the 1992-93 biennium, the project concentrates on developing policies for the following five main areas:

- the role of the public and private institutions in structural adjustment;
- the role of fiscal policy in generating employment and favouring equitable growth in a process of adjustment;
- the role and function of compensatory programmes and social safety nets during adjustment;
- public sector adjustment, including issues pertaining to privatization;
- the role and function of the social partners in the adjustment process.

Further information can be obtained from the Project Manager (Rolph van der Hoeven) or the Project Officer (Andrés Marinakis).

Labour standards and structural adjustment in Hungary

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1. Introduction ¹

This case study considers the role of labour standards in adjustment, in a formerly socialist country undergoing transition to a market economy. Parallel to the programme of economic restructuring and adjustment, Hungary has also experienced significant reforms to its political institutions, including labour laws and the industrial relations system. The economic and political aspects of adjustment are thus closely related, and extensive analysis of both is considered necessary in this study.

As in other countries of Central and Eastern Europe now undergoing a transition to a market economy, a serious factor has been the rapid growth of unemployment, and the need to establish an appropriate safety net including unemployment insurance. A further need has been to maintain to the extent possible the structures of social protection and security which were an important characteristic of socialist society, while ensuring their financial viability as the role of the State in economic and social management progressively declines. A third need has been to define the role of the social partners in economic and social policy issues in general, and in employment and welfare issues in particular, within the framework of the evolving social market economy.

Rather more than in the developing countries, the adjustment lending of the international financial institutions has been addressing issues of this kind, with particular reference first to social security and protection and second to human resource development. The manner in which these issues have been addressed by the Bretton Woods institutions therefore deserves quite detailed attention.

¹ This case study was prepared as part of a more comprehensive global study on International Labour Standards and Structural Adjustment, carried out within the framework of the ILO's Interdepartmental Project on Structural Adjustment. At ILO Headquarters, particular thanks are due to the project manager, Rolph van der Hoeven, who provided valuable comments and assistance throughout, and also to Gyorgy Sziraczki, Hector Bartolomei, Edward Yemin and Jean-Paul Arles.

In Hungary, an extensive programme of interviews with different government departments was arranged by the Department of International Programmes of the Ministry of Labour. Particular thanks are due to Peter Klekner and to Katalin Nagy for arranging this programme, and to Gabriella Schmeider and Krisztina Roman for providing interpretation. Among the many others who gave generously of their time and information were: Lajos Hethy, Maria Lado and Lazlo Neumann (Institute of Labour Research); Csilla Lehoczky and Mariann Varga (labour lawyers); Mihaly Csako, Janos David, Istvan Gabor, Janos Kollo and Istvan Toth (academics and researchers); Andrew Rogerson (World Bank representative); and the many representatives of employers' and workers' organizations.

2. Economic restructuring in Hungary: An overview

2.1 The pre-adjustment situation

The main aspects of economic and industrial restructuring relate to macroeconomic stabilisation, trade liberalization, and privatization and enterprise restructuring. Of these three aspects, some considerably predate the present political transition.

Until the late 1960's, Hungary was a rigidly centrally planned economy. The New Economic Mechanism, adopted in 1968, was the first attempt at limited market reforms. The regulatory framework was adjusted, to limit the influence of central planning, and to permit more autonomous decision-taking by state enterprises. Compulsory annual planning for enterprises was abandoned, prices were determined by the market forces of supply and demand, and some enterprises were permitted to participate directly in foreign trade.

Further reforms during the second NEM decade after 1979 aimed to increase economic efficiency. New pricing regulations were introduced, to connect most producer prices directly with foreign trade prices. And multiple exchange rates were replaced by a unified rate in order to prepare for the eventual convertibility of the Hungarian national currency. The banking structure was reformed, to permit the development of autonomous commercial banks. Significant efforts were also made to promote the development of small private industry, in the urban industrial and agricultural sectors. A main feature of the NEM was the development of the so-called second economy, in which workers increasingly engaged in productive activities outside the formal labour market structure.

Throughout the 1980's, Hungary borrowed extensively on international capital markets. In the early 1980's convertible hard currency debt amounted to approximately US\$ 8 billion, but rose steadily after that until gross dollar debt was over US\$ 20 billion (or some 74 per cent of GDP) by November 1990.

2.2 The adjustment process: An overview

World Bank lending commenced in the mid 1980's, and its specifically adjustment lending in 1988. Industrial restructuring loans were approved in 1986 and 1987; and an industrial sector adjustment loan was subsequently approved in 1989 to support the industrial policy reforms planned for the 1985-90 period.

As described in a World Bank publication,² the industrial policy reform programme has been part of a larger reform effort aimed at macroeconomic stabilization and greater overall efficiency, centred around the three key elements of: increasing domestic and external competition; tightening financial discipline in the enterprise sector; and facilitating the mobility of capital and labour to enable the restructuring of the industrial sector. It

² See Thumm (1991).

concentrated on the most inefficient subsectors and enterprises receiving the highest budgetary support; on cutting producer and consumer subsidies; on strengthening tax reform; and on providing incentives for convertible currency exports. In this assessment, the implementation of this programme was not very successful through to the end of 1989, as macroeconomic management continued to falter, and excessive current account deficits in the balance of payments and increasing external financing deficits emerged. Moreover, enforcement of financial discipline by the enterprises was seen to lag, as the liquidation and restructuring plans for important enterprises were delayed.

The structural adjustment programme was revised, when first the interim government after 1989, and then the government led by Prime Minister Jozsef Antall after April 1990, strengthened the impetus for reform. The revised programme has been supported by an IMF Standby Agreement and World Bank structural adjustment loan (SAL), approved in June 1990.

For international financial institutions (IFI's) and other creditors concerns in recent years have related to a debt of over 20 billion US dollars, and also to the budget deficit which has been consistently larger than planned. This became a major issue by 1992, when in the context of a deep recession social expenditure was greatly exceeding the planned budgetary levels. Debt service payments were approximately \$US 3 billion in 1990, representing a debt-service to exports ratio of 45 per cent.

The first two years of the transition programme were marked by significant economic contraction, with GDP falling by 4 per cent in 1990 and a further 7 per cent in 1991. The fall in output was concentrated in the industrial sector, largely as a result of the collapse in exports to the CMEA countries. In the meantime, fiscal and monetary policies were generally concerned with the objectives of stabilisation, debt-service and reducing the role of the state in the first two years of transition (there being no conscious attempt to use fiscal and monetary policy to mitigate the effects of the fall in exports and domestic production). The budget deficit was 2.7 per cent of GDP in 1989, virtually disappeared in 1990, but in 1991 the position deteriorated to a deficit of 4.8 per cent of GDP. The rise in the budget deficit of 1991 was seen as the inadvertent result of the decline in taxable production, and the increased need for social security expenditures.

As Hungary has experienced difficulties in raising long-term finance from commercial lenders, borrowing from the World Bank and regular consultations with the IMF have assumed an important role in financial planning. The IMF provided a stand-by credit for US\$ 360 million in May 1988, and a one year extension for 1989/90. A further 206 million dollar loan from the IMF was agreed in March 1990, and a three year compensatory financing facility of \$348 million in January 1991. An additional three year extended fund facility worth \$1.5 billion was approved in February 1991, to be utilised for economic stabilisation and restructuring.

In 1990 Hungary drew on approximately \$268 million of loans from the World Bank, making a total of just over \$1.4 billion of debts to the World Bank. Additional international credits have been made available from the European Community, with which an agreement for approximately \$1 billion was reached in March 1991. Hungary also has a 0.79 per cent equity share in the European Bank for Reconstruction and Development (EBRD), which commenced operations in 1990 with the principal aim of financing structural change in Eastern European countries through loans on the international money markets.

While Hungary has declared its intention to meet international commitments and avoid rescheduling at all cost, the reaching of further agreements with the IMF will inevitably be an important factor in maintaining the confidence of Western creditors. As of mid 1992 the IMF had not halted any credits, and reportedly stated that the higher than planned budget deficit was not a cause for serious alarm, for as long as economic policy was moving in the right direction.

3. International labour standards and Hungary

Hungary has ratified a total of 52 international labour conventions. The most recent ratifications were registered in 1989, including convention no. 167 concerning Safety and health in construction, as well as several seafarers conventions. Hungary has ratified several of the ILO's basic human rights conventions in areas such as freedom of association, forced labour, and equality of opportunity and treatment. Of the promotional instruments concerned with employment and training policies it has ratified both the Employment Policy convention, no. 122 of 1964, and the Human Resources Development convention, no. 142 of 1975. Moreover, the ratification of further important instruments has now been proposed to parliament by the ministry of labour. Specific proposals have been made to ratify 12 additional conventions, including: the Labour Inspection convention, no. 81 of 1947; the Employment Service convention, no. 88 of 1948; the Abolition of Forced Labour convention, no. 105 of 1957; the Labour Inspection (Agriculture) convention, no. 129 of 1969; the Holidays with Pay convention (revised), no. 132 of 1970; the Rural Workers' Organizations convention, no. 141 of 1975; the Tripartite Consultation (International Labour Standards) convention, no. 144 of 1976; the Labour Relations (Public Service) convention, no. 151 of 1978; the Collective Bargaining convention, no. 154 of 1981; and the Occupational Safety and Health convention, no. 155 of 1981.

In recent years, with the possible exception of the complex issue of trade union representation, no serious difficulties have been detected by the ilo committee of experts in the application of conventions and recommendations. Under convention no. 87, the Committee has requested certain clarifications concerning the implications of recent legislation for the right to strike.³

The committee of experts has nevertheless made quite detailed comments under the Employment Policy convention, no. 122. In its 1991 direct request for example, the committee asked the government to indicate generally the extent to which the active employment policy pursued meets the requirements of the convention with regard both to the objectives defined and the methods of application. It also requested information on a number of specific points, including: the development of programmes funded or supported by a new employment fund; programmes of job creation in crisis areas; and information on the wage reforms currently in progress, and on developments in the price and wage fixing or negotiation system. The committee also requested further information on consultations held

³ In its Direct Request for 1991 under Convention No. 87, the Committee enquired as to the scope of certain sections of Act No. VII of 1989 on the right to strike. One section had prohibited the calling of a strike to challenge any individual act or omission on the part of an employer which could be settled by judicial means. Another section prohibited the calling of a strike if it constituted a threat to the environment. A further section prohibited in general terms any abuse of the right to strike.

with representatives of the sectors concerned by measures to be taken, particularly within dispute settlement bodies, and with regard to matters concerning retraining, transfers, social guarantees and the protection of workers whose employment has been terminated. Moreover, noting that the government's report referred to the drafting of an employment act under which the measures envisaged would be financed by contributions from employers and workers as well as by allocations from the state budget, the committee requested the government to provide information on developments with regard to the above draft.

Under the Human Resources Development convention, no. 142, the Committee submitted only a brief direct request in 1992. This noted with interest the current reforms to the vocational training system, which would eventually be regulated by law. It requested the government generally to provide information concerning any follow-up to the draft law as well as a copy of any new legislation once enacted.

4. Structural adjustment in Hungary: The political context

In examining the possible linkage between international labour standards and the process of structural adjustment in Hungary, we have next to consider which elements of the adjustment process should be taken into account. In Hungary since 1989 in particular - as indeed in all of the Eastern European countries since that time - almost all elements of society have been subject to sizeable adjustment. The entire legal and political system is now being reformed, as the processes of economic and political liberalization have moved in tandem. Following the adoption of a new Constitution in 1989, all major pieces of social, labour and employment legislation have either been revised already or are currently in the process of revision. New legislation includes the April 1991 Employment Act and the 1992 Labour Code, each of which will be examined in more detail below. Moreover, a major reform of the social welfare system is currently under way, and a number of separate bills to this effect have been drafted in government ministries.

The following analysis focuses mainly on the economic and social dimensions of adjustment, rather than on the broader political issues associated with the transition to parliamentary democracy and a market economy. The economic and political dimensions are nevertheless closely interrelated. The economic transition since the late 1950's was accompanied by more limited reforms to the system of labour relations, in what one Hungarian analyst has referred to as the liberalization of the Stalinist model of industrial relations between 1966 and 1988.⁴ As employers and enterprises became more autonomous actors, this inevitably affected the role of the social partners in economic management. While employer and worker organizations continued to be dependent on the Communist Party, a greater role was given first to trade unions representatives in determining collective agreements and enterprise wage policies, and second to enterprise councils in deciding on major economic issues. These enterprise councils were set up in the state sector in the mid 1980's, comprised equally of management and worker representatives, and were involved in decisions on such issues as production planning, marketing and pricing policies.

⁴ See Hethy (1991).

The process of economic adjustment was greatly facilitated by political events after 1988. More stringent adjustment policies have been adopted, first after 1988 and particularly after the free elections of 1990. The stated objective of the Antall Government, as set out in its Programme for National Renewal, has been to create a "social market economy" in which the private sector predominates, but where the more vulnerable social groups in society are protected through a social safety net. To this effect, the Antall Government has designed a reform programme for the transformation of Hungary into a competitive market economy within a 4-5 year period. Important elements include fundamental reforms to the structure of ownership mainly through privatization and re-privatization programmes; the promotion of market competition through deregulation and the enforcement of financial discipline; and a restructuring of social welfare programmes. The reform programme is expected to be conducted with tight fiscal, monetary and credit policies to ensure macroeconomic stability.⁵

By late 1992, although parts of the adjustment process were only barely under way, three main issues of concern could be identified, subject to analysis from the perspective of the ILO and its standards.

First, there were critical labour market issues related to employment policy, unemployment, redeployment and retraining. The level of unemployment had reached serious proportions, and further sharp rises of unemployment were anticipated over the coming year. Though significant unemployment had been seen as inevitable in the short term, as a necessary consequence of privatization and reduction of over-manning in state enterprises, the extent of unemployment had nevertheless exceeded expectations, and was causing a certain amount of rethinking as to the relative priority to be given to active and passive employment policies.

Second, in the light of the worsening economic situation and growing unemployment, the nature of the emerging social welfare and distribution system had become a major issue of debate. As will be seen further below, the international financial institutions including the IMF and the World Bank have addressed the social security and social welfare system in their policy sector reviews, and have formulated certain recommendations for reducing the state budget and targeting social benefits. These recommendations have been subject to some sharp criticism, in that they conflict with a culture of social protection that has received longstanding support and acceptance in Hungarian society.

Third, there were the issues related to the emerging industrial relations system, and the role of the social partners in economic restructuring. The Government has had to decide what aspects of labour relations should be regulated by law, to what extent it should intervene in issues including wage-fixing and employment security, and to what extent these matters should be left to bipartite negotiations between employer and worker groups.

Recent developments on each of these issues can now be examined in turn, by reference where relevant to the emerging legal framework.

⁵ For an overview of the programme, see Langhammer, Nunnenkamp and Hiemenz (1992).

5. Employment policies and trends, and the regulatory framework

5.1 Employment and unemployment trends

A sharp rise in open unemployment was a predictable result of the transition to a market economy. Under the centrally planned economy, there had been significant labour hoarding in the large state enterprises to address the recurrent problems of labour shortage. It was widely accepted that significant lay-offs would now have to occur, in order to increase productivity levels and make Hungarian private industry reasonably competitive in an open market economy.

A frank appraisal is contained in the World Bank's 1991 sector policy study on human resources issues.⁶ Under this assessment, significant unemployment from releasing redundant labour and/or downward wage flexibility will be necessary to improve labour productivity in the state sector; and stabilization and structural adjustment are likely to lead to high short-term unemployment rates. Surplus labour can be released with minimum hardship only if the Government pursues an active employment policy within a market framework. This is seen to involve (a) improving the institutional infrastructure and functioning of the labour market (wage determination, employment and training services, labour market information etc.); and (b) improving the labour supply side, by restructuring vocational training for youth and adults, and reforming higher education. Rigidities in the supply and demand of labour are seen as equally serious. Unless rapidly addressed, rigid labour markets together with an unresponsive training system will severely constrain the economic reforms and the move to a market economy.

An ILO report, following a field mission fielded in December 1991,⁷ contains a detailed survey of employment trends and the structural factors behind them. It finds for example that there has clearly been labour shedding and a decline in total employment since 1989. Private sector employment doubled between 1989 and 1991 with the addition of some 350,000 new jobs during this two-year period, but over this same period employment in the state sector fell by 519,000. Overall employment fell by 15 per cent in the first nine months of 1989 compared with the same period in 1990. Moreover registered unemployment grew fast in 1991, from around 100,000 at the beginning of the year to 406,000 in December, representing a rise in the unemployment rate from 2.1 per cent to over 7.3 per cent. At the same time the average length of unemployment had been increasing, and the rate of unemployment was expected to continue to rise, with forecasts for the end of 1992 varying from 10-15 per cent and still rising. It was found that the skill composition of the unemployed had been changing, with unskilled and semi-skilled workers now comprising over half of all job-seekers. The report stressed the need for policies to increase employment creation, with a greater relative emphasis on active rather than passive employment policies.

Unemployment trends continued to worsen during 1992. According to official figures the unemployment figures were 478,000 or 8.4 per cent in March 1992, 552,700 or 9.7 per cent

⁶ See World Bank (1991a).

⁷ See ILO (1992).

in May, and had exceeded 600,000 by mid September. Some significant regional differences were detected, with the industrial region of Borsod in Northern Hungary registering a rate of 16.3 per cent unemployment in the first quarter of 1992.⁸ It was widely predicted that the unemployment rate would continue to rise over the coming year, most likely reaching some 20 per cent of the economically active population.

5.2 Employment policies and legislation

An Employment Law, Act IV of 1991 on Employment Promotion and Provision for the Unemployed, was enacted in early 1991 and amended in 1992. It outlined both broad principles of employment and training policies and the procedural aspects of their implementation.

The main instruments of employment policy are outlined in the section dealing with support schemes for employment promotion. They include support for training schemes; and subsidised assistance to unemployed persons for entrepreneurial activities, through reimbursement of up to half the costs of professional counselling services and training courses. Further provisions include aid for employment promotion, through subsidies for employers who take on jobless persons for at least six months or unemployed school-leavers for at least three months. There are provisions for aid for part-time employment, and for assumption of early retirement pensions.

The law establishes rules on lay-offs, placing certain restrictions on employers' rights to terminate employment. For example an employer of at least 30 workers, who intends to reduce his staff within a period of six months by at least 25 per cent, shall notify the decision with a statement of the reasons three months prior to ordinary notice. Workplace committees including workers' representatives are to determine the principles and phasing of lay-offs, and to determine workers' benefits in addition to those required by law.

An extensive part of the law is concerned with provision for the unemployed. It covers a range of benefits, including unemployment benefit, preliminary pensions, school leavers' unemployment benefit, and reimbursement of expenses. It deals with the rate of the unemployment benefit, the duration of its payment, and reasons for the discontinuance and suspension of its payment. It stipulates the criteria for applying for early retirement pensions, and for the provision of unemployment benefits for school-leavers.

A chapter of the law is concerned with the financing of both unemployment benefits and employment promotion schemes. Basically it separates income protection schemes from the budget. First a "Solidarity Fund" is established to finance the unemployment benefits, financed by an employer contribution amounting to 5 per cent of gross earnings, and a worker contribution amounting to 1 per cent of gross earnings.⁹ If the amount of contributions is insufficient to cover payments from the Solidarity Fund, the deficit not exceeding 10 per cent of the financial resources paid into the Solidarity Fund during a given calendar year shall be financed from the state budget. Second, an Employment Fund is to

⁸ Figures taken from Economist Intelligence Unit, *Hungary Country Report*, No. 3, 1992.

⁹ At the time of the mission, the Government was proposing an increase in the employer contribution to 7%, and of the worker contribution to 2%, of gross earnings. Some Government officials expressed concern that the higher worker contribution in particular would not be justifiable at the present time.

be financed through allocations from the state budget and the proceeds from privatization. Allocations can be set apart from the Employment Fund for the purpose of managing crisis situations in employment, their size to be determined by local labour market committees.

A final chapter is concerned with the procedural issues of labour market organization. Its central organ is to be a National Labour Centre. Local organs are to be the County (Metropolitan) Labour Centres, which have a wide range of tasks. These include: administering unemployment benefits, as well as undertaking employment promotion schemes and providing placement and counselling services; furnishing information and forecasts on the local labour market situation; providing orientation for vocational training schools in determining the structure of training and the rates of enrolment; and helping solve employment policy problems caused by considerable lay-offs.

5.3 Issues in employment policy

As unemployment rises, the main issues of debate have been the relative priority given to active and passive employment policies, and the means by which employment measures can or should be financed. The Employment Law, as has been seen, provides a very broad framework for activity. But the actual extent of activities depends very much on the State budgetary allocations. In the past - some time before unemployment began to reach its present high rate - concerns were expressed first that only a small percentage of the total budget would be available for financing new active employment measures, and second that spending for unemployment compensation would soon exhaust the Solidarity Fund if there was no diminution in the current rate of increase in unemployment.¹⁰

Recent employment policy responses have been reviewed by the ILO.¹¹ An ILO mission observed generally that very little appeared to have been done by way of policies to influence the level of employment creation in the design of overall transition policies. Also very little appeared to have been done to analyze the effects of changes in taxation, methods of funding social benefits, and various aspects of labour market regulation on the creation of employment. Moreover the mounting unemployment, and the increasing average period of unemployment, were creating severe pressures on the Solidarity Fund. The report pointed to the low priority given to employment considerations in the important decisions on liberalization, restructuring, privatization, foreign investment promotion, taxation and the funding of social benefits.

Concerns have been widely expressed that passive measures are absorbing too much money, leading to severe budgetary pressures. Labour Ministry officials have stressed that the main emphasis at the present time *must* be on passive measures, because only one quarter of the unemployed can be reached through an active labour market policy. But in 1992 the Ministry's requests for a substantial increase in the budget for passive measures were rejected by both the Ministry of Finance and the social partners themselves during tripartite negotiations.

In fact, passive employment policy expenditures in Hungary are presently high in comparison with other East European countries. In Hungary they absorb some 80 per cent

¹⁰ See Sziraczki (1991).

¹¹ See ILO (1992).

of expenditures, compared with approximately 50 per cent in Slovenia for example. In the course of 1992 some 300 Hungarian forints were spent per worker on active policies, and some 3,000 forints on passive policies. Moreover, one of the constraints to increasing the emphasis on active measures appears to be the built-in inflexibility within the Employment Law itself. Because the percentage of employer and worker contributions to the Solidarity Fund has actually been specified within the Employment Law, changing these contributions is a complex process following protracted tripartite negotiations.

The position of the Government (influenced by discussions with the IMF at meetings held in August 1992) was to reduce the period of unemployment benefits from 18 months to 12 months, and also to increase both employer and worker contributions to the Solidarity Fund. The first of these measures was officially announced during September 1992, while the relative amount of increased employer and worker contributions was still under negotiation.

5.4 Human resources development

Reforms to the training system as related to employment, including vocational training within schools and adult education, have been an important aspect of the transition programme. Institutional responsibilities have been divided between the Ministry of Education, responsible for the administration of youth training in secondary vocational schools; and the Ministry of Labour, responsible for the vocational curricula. An autonomous National Training Council has been created to administer adult training, funded by the employment fund and the State budget.

In its policy work, the World Bank began to address human resources development in 1989, when a number of missions were fielded to Hungary. Working groups of Hungarian counterparts were formed for four separate themes, namely: labour markets and emerging unemployment, training for skilled workers and technicians, higher education and professional training, and scientific and technological research. A policy report on critical human resources issues was then prepared by the World Bank,¹² providing the basis for its proposed Human Resources for Technology Development Project.

As the report argues, an underlying problem is the inadequacy of the education and training system for the emerging market economy. A mismatch between existing skills and new requirements is seen as pervasive. First, appropriate retraining and adult education must be instituted to facilitate the reentry of displaced workers to the labour market. Second, the education system must be reoriented to provide better training to the new generations. The quality and cost-effectiveness of youth training and higher education are seen as particularly urgent.

World Bank credits have also been provided for the strengthening of employment services, through its Third Industrial Restructuring Project. Resources have been provided for the development of model employment services, including: programme planning and evaluation systems; occupational information, assessment and job search strategies; and industrial adjustment services for mass lay-offs.

¹² See World Bank (1991a).

6. The social welfare system: Constraints and emerging policies

Apart from the question of unemployment compensation, the present budgetary crisis has caused particular attention to be paid to the system of social security and social welfare as a whole. By September 1992, while no comprehensive new legislation had as yet been enacted, separate drafts of a new law had been circulated among different ministries and policy sector papers has been prepared by both the IMF and the World Bank.¹³ Both analyses focused broadly on social insurance pensions and sick pay, support for the unemployed, family support and allowances, maternity and child care support, and social assistance and social services. Largely similar in their approaches and orientation, they aimed first to evaluate Hungary's existing social policy system; and then to propose reforms aimed at strengthening its role as a social safety net, raising the quality and fairness of social programmes, ensuring the financial sustainability of the system, and restoring incentives suitable to a market economy (in particular those relating to demand and supply of labour).

The following comments are based on discussions with officials from the Ministry of Finance responsible for budgetary issues, with the World Bank representative, with academic experts responsible for social policy analysis, and with employer and worker representatives. The documentation consulted includes the above-mentioned IMF and World Bank studies, a study of the Hungarian welfare state in transition prepared by academic policy analysts for the March 1992 Blue Ribbon Commission Meeting,¹⁴ and select articles by Hungarian academic and policy specialists on social welfare and security issues.¹⁵

6.1 The socialist legacy

The legacy of the socialist period was a social welfare system that took up a large share of the national budget, but was delivering increasingly inadequate services in such essential areas as health and education during the 1980's. Between 1968-88, spending on social services and social security represented approximately one third of the budget.¹⁶ Sick-pay and disability pensions are reported to have been widely abused, in that central wage regulations did not take into account the incomes of persons on sick leave or in the process of applying for disability pensions. Enterprises could thus make considerable savings by registering these persons as their employees, and use the savings for productivity incentives through premiums and wage increases.¹⁷ Moreover there was a large range of employment-related benefits, including subsidised holidays in leisure centres under trade union control and administration.

However, the inadequacies of the social welfare system during the Communist era should not be over-stressed. Sources tend to agree that social policy instruments in the 1950's and 1960's were dominated by political factors. Social and health insurance provisions

¹³ See IMF (1990) and World Bank (1991b).

¹⁴ See Istvan et. al (1992).

¹⁵ For example, Ferge (1987) and Szalai (1991).

¹⁶ See Szalai (1991).

¹⁷ See Szalai (1991).

discriminated against those who were not in salaried employment, for example the peasantry. But at least one analyst¹⁸ argues that social policy records after 1956 compare relatively well with those of the western European countries until the early 1970's, in particular considering the significantly lower level of its economic development. Pensions, sickness benefits and family allowances are among the issues where the comparisons are favourable.

6.2 Restructuring social security: Government, IMF and World Bank approaches

Restructuring the social security and welfare system has now become an important government priority under the transition, as well as one of the major issues to be addressed by international financial institutions in their sector policy studies and loan preparation. The apparent thrust of policy is to reduce the state budget by reducing the size and duration of certain benefits and also tightening eligibility, and at the same time targeting social benefits towards the most needy sectors. A number of administrative changes have also been envisaged, for example through decentralisation and greater involvement of the social partners in social security administration on a tripartite basis. But many of the proposed changes were still under active discussion at the time of writing. Notably the status of family benefits, deeply embedded in Hungarian culture, was an issue of controversial debate.

Despite their essential similarity, the sector policy studies by the IMF and the World Bank respectively merit separate examination.

a. IMF appraisals

An IMF mission was undertaken in mid 1989, in response to a request by the Hungarian authorities to provide technical assistance regarding the social security system. Its report observes that the Hungarian social security system is unsustainable from a financial point of view over the medium to long term, even under relatively optimistic economic and demographic assumptions. It calculates that the Social Insurance Fund will incur a deficit at least by the mid 1990's, which is to increase progressively to 10 per cent or more of GDP two decades later. Short of fundamental reform, "the deficit will have to be covered with a further increase in the contribution rate, which is already very high by international standards. More immediately, the need for social security reform is underscored by a stepped-up effort at economic stabilization and structural adjustment - industrial restructuring, and price, wage and import liberalization - which is bound to expose substantial segments of the population (low-income households, unskilled workers etc.) that hitherto have enjoyed consumer and housing subsidies and job security to increased, albeit in many cases transitory, economic hardship".

Reforms are thus seen as necessary to meet the threefold needs of the promotion of equity among generations, the provision of adequate protection to those in need through a safety net for the indigent and the unemployed, and cost effectiveness. The structural measures on the policy agenda are seen as contingent on social security reform to mitigate the costs of adjustment. Without such reform, their implementation is likely to be "further delayed or even jeopardised, at least in so far as the absence of an adequate social safety net for those

¹⁸ See Ferge (1987).

seriously affected will preclude much-needed broad popular support for structural adjustment".

To this broad effect, the IMF study advocates the adoption of a number of specific policy measures at an early stage. In brief it proposes that "early (i.e. within the first year) and full implementation is advisable" with regard to a package of policy measures including: partial indexation of pensions; tightening eligibility and screening for disability benefits; shift of financial responsibility for sick pay to the employer; repeal of supplementary unemployment compensation, reduction in regular compensation period, and introduction of partial benefit; minimum unemployment compensation shortly prior to standard retirement; overhaul and enhancement of indirect job creation programmes; a first 3 percentage point cut in the contribution rate to the extent permitted by a surplus in the Social Insurance Fund; consistent personal income tax treatment of contributions and benefits; and taxation of family allowances. Other measures are proposed for longer term action. For example measures involving a final round of cuts in the contribution rate should be announced now, but implemented over the long run, beyond five years from now. Additional measures (particularly tightening eligibility for old-age pensions, health care reform, training and rehabilitation) should be initiated soon, though full implementation would have to take place sometime within the next five years or beyond.

b. World Bank appraisals

The World Bank sector study on the reform of the social policy and distribution system was first issued in draft form in February 1991 and later released in 1992. This study first compares social expenditure in Hungary to that in comparable Western countries. It finds that, despite a high level of government expenditure relative to GDP, Hungary has nevertheless not devoted a particularly large share of national income to social benefits. However, compared with OECD countries, Hungary has the lowest personal taxation including employees' social insurance contribution, and the highest rate of employers' social insurance contributions. Thus two alternative scenarios are put forward for future policy formulation. One is that the Hungarian population should choose to maintain a relatively high level of social income, but should bear more of the cost through higher contributions and/or personal income taxes. Another is that, to bring Hungary more in line with competitor countries, social income should be reduced but without a compensating reduction in personal taxation.

From a macroeconomic perspective, this study identifies the main structural issues of the social policy framework as: (a) the relatively high level of national income and budgetary resources devoted to social transfers; (b) the high and growing share of social income in household income, which dampens work incentives; (c) the financial non-viability of the pension programme, given the existing expenditure trends; and (d) the heavy burden of social insurance taxation on employers, which seriously constrains Hungary's international competitiveness and is inconsistent with the functioning of a modern market economy. It argues on the grounds of both efficiency and effectiveness for the growth of total pension outlays to be curtailed through tightened eligibility; a reduction of expenditures through structural reform of sick pay, family allowances, maternity and child care benefits, and housing subsidies; an increase in the share of social expenditure devoted to unemployment support and social assistance; and a marginal increase in the share of GDP allocated to health and per capita spending on education. It also advocates greater burden-sharing between the

private and public sectors, including increased private provision of pensions and social services.

Regarding pensions, the World Bank study sees an increase in the effective age of retirement as essential for ensuring the long-term viability of the pension programme. This would require harmonization of the legal minimum retirement ages for men and women, introduction of a higher and common standard retirement age, and reform of the pension formula to induce later retirement as a deliberate decision of individuals. Regarding unemployment support, it proposes some reconsideration of the treatment of part-time work, voluntary quitting and early retirement, since the proposed unemployment insurance may be offering "undesirable incentives" in these cases. Regarding family support it proposes a combination of measures to improve targeting and reduce expenditure, including more sharply differentiated payments by family size, means-testing a portion of the benefit, and taxation of family allowance. Regarding maternity and child care support it proposes a curtailment of the length of paid child care benefits, a significant reduction in the length of paid maternity leave and/or a reduction in the earnings replacement rate during maternity leave, and a switch from earnings-related to flat-rate support after maternity leave. Regarding social assistance and social services, it observes that the rapidly growing demand for such assistance is already outstripping the budgetary resources of the councils. It therefore proposes that social assistance should be an entitlement as of right for those individuals who can demonstrate need via a means test; and that the administration of social assistance needs to be reformed so as to promote uniformity of treatment across the country.

6.3 National perspectives

Fears concerning the financial non-viability of the pension system - and indeed of the social security system in general - appear to be confirmed by events over the past two years. According to the Finance Ministry the social security deficit for 1992 was 20 billion Hungarian forints, and could be as high as 70 billion by 1993. Many enterprises have also proved unable to pay their social security contributions. Moreover, as seen in the previous section, the need to place a high priority on financing unemployment benefits has been confirmed by the recent unemployment trends. And there are concerns that decentralisation initiatives will lead to inadequate income protection for the unemployed, in particular the long-term unemployed. By 1990 approximately 60 per cent of the unemployed, and 90 per cent of the long-term unemployed, were receiving benefits below the level of the minimum wage. There were further concerns at the rapid growth in the number of children living in poverty. One source estimated that in the late 1980's two out of five individuals living in poverty were children, and roughly one third of them were under six years old. As several analysts observed, the current trends had much in common with those in the Western market economies with the severest recession and the highest levels of unemployment. But in the worsening economic and employment climate of Hungary today, any external pressure to effect widespread and rapid reductions in the state welfare budget is bound to meet with resistance.

7. Towards tripartism: Issues of labour law and relations

7.1 Preliminary observations

Of the adjustment issues for which ILO Conventions have potential relevance, certainly the most dynamic area of activity has been that of labour or industrial relations. Both the last Communist Government between 1988-90 and the elected coalition Government after 1990 have paid particular attention to reforming the industrial relations system, in order to adapt it to the needs of economic restructuring and an emerging market economy. The earlier reforms appear to have been motivated largely by economic considerations, including the need to reform wage fixing machinery. Since 1990 issues of political controversy have included the legitimacy and representativity of the older and newer trade unions.

While the framework of the industrial relations system has been determined by recent legislation, in particular the 1992 Labour Code, the practical implications are still far from clear. The implications are that the state intends gradually to diminish its direct role in industrial relations, providing the framework for bipartite collective bargaining. However, as most Hungarian industrial relations analysts have argued, this can only be a very gradual process. The state remains the major employer as the privatization programme has only barely got under way, both employer and worker organizations remain quite weak, and very few collective agreements have as yet been reached at the enterprise let alone at the branch or "middle" level. Moreover, while the formal mechanisms are in place for giving the social partners a significant role in national dialogue, it inevitably remains unclear what the real effect of this will be on employment and social policies.

This section aims first to examine the role given in law to employer and worker organizations, in negotiating terms and conditions of employment within the adjustment process; and second to identify some concerns of the social partners, as expressed in late 1992. But before doing this, a brief background concerning the major elements of the industrial relations system would be useful.

7.2 The industrial relations system before 1988

The economic reforms of the 1960's onwards inevitably involved changes in the pattern of industrial relations. Employer and worker organizations, while still dependent on the Communist Party, began to assume a more independent role vis-à-vis the state. On the employers' side, the Hungarian Chamber of Commerce became independent in the mid 1980's and declared itself as representative of employer interests. On the workers' side, the official trade unions moved away from their exclusive role as "transmission belts" between the state and the workforce, and moved towards a stance more representative of workers' interests. Though trade unions were denied the legal rights to strike, a particular Hungarian arrangement was the trade union right of "veto" applicable to both individual and collective disputes.

Collective bargaining took place at the enterprise level, but its role was necessarily limited. Legislation in the post-1968 period strictly specified the issues that could be settled

through collective bargaining. Moreover, as an ILO team observed in the mid 1980's,¹⁹ the purpose of collective agreements in Hungary was fundamentally different from that in the western industrialised market economy countries. In the market economies, its purpose was to regulate relations between the parties and to fix wages and other terms of employment and working conditions at a level higher than the minimum standards defined by law. In Hungary, collective agreements were aimed essentially at adapting legislative provisions to the conditions of each enterprise, within the framework of national economic policy guidelines and instructions. As the ILO then observed, "It is at the national policy-making level that the really important decisions about production, investment and distributions are made, and probably, therefore, at that level too that collective bargaining in Hungary mainly takes place - even if the outcome is not necessarily a written agreement".

However, while until 1988 there was a single trade federation with 95 per cent of all employees as its members, the economic reforms led to different forms of worker representation at the enterprise level. In the words of one analyst,²⁰ the gradual marketization of the Hungarian economy was accompanied by a limited increase in union autonomy and a shifting of its functions. As the "second" or unregulated economy²¹ grew in importance, the Government launched a policy of further decentralisation in the "first" economy in the early 1980's which informed new forms of bargaining at the enterprise level. In large state enterprises, employees were given the right to negotiate their ratio of input and output after official working hours. These negotiations were apparently not supervised by the trade unions, and have been seen as a first attempt to "deregulate" union influence at the enterprise level. Both blue and white collar workers were thus enabled to negotiate not only their forms of work organization, but also the ratio of their work efforts and wages.²²

At the same time, there were important changes in the structure of worker representation at the enterprise level. As of the late 1970's, shop stewards began to assume a major role. As direct representatives of the trade union members, they had the right of joint decision on issues including collective agreements and enterprise wage policies, and were also consulted on matters related to production planning and organizational changes. A later innovation was the Enterprise Councils established in the state sector in the mid 1980's. Comprised of management and worker representatives in equal numbers, they had rights of decision over major economic issues related to production and planning, and also over the election and dismissal of the director of the enterprise. However, the Enterprise Council arrangement has often been depicted as an instrument of managerial control, which served to accelerate the demise of the trade union role in management decisions.

7.3 Initial developments after 1988

In terms of the actors, a major factor since 1988 has been the emergence of both independent trade unions and several new employer organizations. The official trade union

¹⁹ See ILO (1984).

²⁰ See Mako (1992).

²¹ The "second economy" played an increasingly important role in Hungarian economic and social life after the 1960's. It has been defined by Istvan Gabor, a leading specialist in this area, as: "the field of all those economic activities through which the population - legally or illegally - acquires incomes not as employees in the socialist sector". See Gabor (1989).

²² See Mako (1992).

was dissolved but effectively constituted under the new name of MSZOSZ. As of 1992 it appeared to retain by far the largest membership, claiming approximately two thirds of all affiliated members. Altogether, seven national trade union federations and nine employer federations were officially recognised. There have been considerable disputes regarding the legitimacy of these organizations as truly representative of interests, perhaps most particularly with regard to the trade union federations. These were sensitive issues by late 1992, in view of the forthcoming trade union elections and the key question of division of trade union assets.

At the national consultative level, an important innovation in 1988 was the establishment of a National Council for the Reconciliation of Interests (henceforth referred to as the CRI). Though its name and functions were marginally changed under the Antall Government, it retained its original status as a national tripartite consultative body representing government, employer and worker interests. Its original mandate was minimum wage determination, and recommending to enterprises the boundaries of individual wage settlements. However, it was soon expected to deal with other issues including prices, profit taxation and personal income taxation.²³

Since its reorganization in August 1990, considerable emphasis has been placed on the tripartite structure of the CRI. Workers have been represented by a confederation composed of seven member organizations, and employers by a confederation of nine organizations. The Government has been represented by the Minister of Labour, and decisions can be taken only on the basis of consensus among the three parties. Its fundamental role remains a consultative one, although substantive decisions can be taken in areas such as the minimum wage.

The CRI comprises nine separate working committees, the responsibilities for each of which are set out in its standing orders. For example, an Economic Consultative Committee is to discuss and comment on the government programme, package plans, economic policy and economic legislation. A Committee on Income Policy is to monitor changes in macro-level income patterns between enterprises and workers, and analyze global interactions of sectoral income flows between the State, enterprises and workers (prices, wages, taxes, customs, benefits, subsidies etc.). A Committee on Wages and Labour is to prepare and reach macro-level agreements and decisions concerning wages and labour matters. A Labour Market Committee is to elaborate agreements and measures to promote adaptation of workers and employers to the labour market, with particular emphasis on employment, working conditions and professional training. A Committee on Social Policy is to discuss, comment on and formulate common conclusions on state social policy concepts (such as those relating to the pension scheme, increase in pensions, family allowance etc.), though it is not authorised to adopt decisions. And a Committee on Labour Safety is to comment on, and participate in the formulation of, state labour policy at the national level; comment on macro-level questions, legislative provisions and government decisions submitted to it on matters of labour safety; and adopt agreed recommendations on questions of labour safety involving higher than minimum safety standards.

²³ See Lado (1991).

7.4 The 1992 Labour Code

A new Labour Code was passed by Parliament in April 1992. As described in an official text of the Ministry of Labour,²⁴ its "concept, as well as the institutions that it introduces and the regulations that it establishes, answers the standards of a market economy besides expressing the basic principles laid down in previous decades, weighed-down with over-engineered, bureaucratic ties - it gives voluntary agreements of employers and employees first place. It lays down the rules and guarantees the freedom to organize into trade unions, institutionalises workers's participation, creates the institution of works councils, and introduces a new process of settling labour disputes".

Indeed, a Ministerial introduction to the Labour Code bill²⁵ suggests that the underlying premise is one of minimalist regulation, providing for the withdrawal of state intervention, setting only the minimal standards for an employment relationship and leaving all other matters to negotiation by the contracting parties. And in the critical view of one Hungarian labour law specialist, the legislators' undeclared intention was "to share attractive conditions of labour employment for foreign capital, to stimulate private investments primarily from abroad by offering them cheap labour here with little trade union protection and with little word in managerial decisions by employee participation (at least in comparison to West European standards)".²⁶

A detailed analysis of the Labour Code is not considered necessary here, and only some essential provisions relating to the adjustment process are highlighted below. Perhaps its major feature is to move away from the detailed and compulsory regulation that characterised earlier labour law, and to leave the maximum possible number of issues to free negotiation among the parties concerned. It appears to have facilitated dismissals, by doing away with earlier provisions providing protection for particular categories of worker. And it involves some significant new approaches to the collective bargaining process, by establishing criteria representativity at the workplace and giving a major role to works councils at the enterprise level.

Part II of the Labour Code deals generally with labour relations. Here the first Chapter gives formal legal status to the CRI. With respect to labour relations and issues of national importance affecting employment, the Government is to reconcile issues with the national representative bodies of employers and employees in the CRI. The second Chapter deals with the Trade Unions. One provision of possible significance in the context of privatization is Article 22, stating that "Trade unions may request information from employers with respect to all issues that affect the employees' economic interests in relation to their employment. Employers must not refuse to provide such information or justification for their action". The third chapter deals with the Collective Agreement, and the fourth with Employees' Participative Rights. This deals extensively with the role and responsibilities of the works council (or "shop council" to use the terminology in the official English version of the Code). Participative rights are exercised in the employees' name by the shop council or the shop floor officer, elected by them (Art. 42); and a shop council has to be elected at every

²⁴ See Ministry of Labour (1992).

²⁵ Ministerial introduction to Bill No. 3066, cited in Lehoczky (1992).

²⁶ See Lehoczky (1992).

employer and every business establishment where the number of employees is over 50 people (Art.43). There are also provisions (Art. 65), requiring the employer to elicit the opinion of the shop council on issues including measures such as privatization that will impact upon a major group of employees, plans for employee training or ideas concerning employment subsidies, or the introduction of new methods for work organization and performance requirements.

Part III of the Code is concerned with labour relationships, and its Chapter IV with the cessation and termination of employment. Employment can be terminated by agreement, normal notice, extraordinary notice, or with immediate effect during the probationary period. Employees are eligible for severance pay if their employment is terminated by normal notice or its liquidation without legal successor, the amount depending on the period of service. Other chapters deal with issues including rules of work, working time and leisure, and remuneration, and do not require further commentary.

Part IV of the Code deals with collective and other labour disputes, outlining procedures for conciliation and arbitration, and for submitting petitions to the labour courts.

7.5 Issues in labour law and relations

At the time of writing, the labour relations system was inevitably undergoing substantial changes. Only brief comments can be made here, and they cannot hope to do justice to the complexity of the issues raised. On the trade union side, a major debate concerned the legitimacy and representativity of the existing trade union organizations. More general issues concerned the nature and scope of collective bargaining arrangements, including the level at which collective bargaining should take place between enterprises or industries, and also the subjects which should be addressed through collective bargaining. Other issues related to conciliation and arbitration procedures, and the role of the labour courts in determining employment security of conditions of employment.

The issue of most relevance to the present study is labour relations in the privatization process. In considering this aspect, it must be recognised that the privatization of the larger state owned enterprises had barely begun in earnest.

As one Hungarian analyst has observed,²⁷ rather limited attention has been given to social and labour concerns by the State Property Agency (SPA) as the state agency responsible for privatization. While the trade unions generally accepted the need for privatization as an inevitable step, in preliminary negotiations they emphasised issues including the social and economic implications of privatization, employee participation in decision-making, and the chance of access to share-holding. However the SPA, in aiming to maximise state revenue from company sales, tended to ignore labour issues or trade union demands. Any approach such as underwriting employment guarantees or accepting redundancy payments was rejected by the SPA as a factor reducing the sales price. Subsequently however, parliamentary legislation provided for compulsory severance pay following retrenchments.

²⁷ See Neumann (1991).

As the same analyst observes elsewhere,²⁸ trade union demands at the enterprise level have involved job preservation, the maintenance of social facilities and other employee benefits, and the continuity of the provisions of earlier collective contracts. They appear to have been least successful in the former, not surprisingly in view of the degree of overmanning of state enterprises. Preservation of the level of social policy benefits, including the financing of holiday resort places, has been of prime importance among trade union objectives. Rather less importance has been attached to training and retraining programmes, the strategic role of which has not been recognised to date by Hungarian trade unions.

While the Labour Code provides for collective bargaining by sector or industry, there has been little evidence of this to date. At the enterprise level, national research has detected mixed attitudes towards the unions. It has apparently proved easy to create non-unionised plants, perhaps offering higher wages as a trade-off for not insisting on union membership. There have been isolated instances where enterprise management, taking advantage of inter-union rivalries, have nominated or appointed workers' representatives. It has been argued that the emerging foreign management in large companies usually recognises trade unions, and is prepared to engage in collective bargaining. In the case of small and medium sized venture by contrast, employers are more averse to concluding collective agreements, and tend to pursue selective labour policies through individual labour contracts.²⁹

In the meantime, the majority of cases brought before the labour courts have concerned alleged unfair dismissals. There were approximately 20,000 such cases in the year up to September 1992, comprising some 75 per cent of all cases. There was a significant increase after the adoption of the Labour Code, with some 3,500 new cases representing a 36 per cent increase over the average for the January-June period.³⁰ Labour judges recognised the difficulties in applying the legal standards in small scale enterprises in particular.

In summary, the general picture in both law and practice remains highly uncertain. The Labour Code recognises the role and functions of both trade unions and works' councils, without fully clarifying their respective roles and responsibilities. While there are ample provisions for tripartite negotiation, the requisite State agency has not accorded a significant role to trade unions in determining the social and labour aspects of privatization. Trade unions are currently perceived as weak and divided, and their credibility has also been impaired by the socialist legacy. Collective bargaining has taken place mainly at the enterprise level, with mixed results, and the need for more bargaining at the sector and industrial levels is now recognised.

²⁸ See Neumann (1992).

²⁹ See Neumann (1992).

³⁰ Statistics provided by the President of the Labour Chamber of the Supreme Court, interview of September 1992.

8. International labour standards and the adjustment process

8.1 Preliminary observations

The linkage between the ILO's standards and adjustment in Hungary has to be examined from different perspectives. One aspect is the positive role of ILO standards and principles in affecting the parameters of the emerging labour law and industrial relations system. Another is the use of ILO standards, including several ratified Conventions, as a bench mark for formulating and evaluating employment and social policies.

The Government of Hungary has made a concerted overall effort to reform its labour law and industrial relations systems in line with ILO standards, drawing extensively on technical assistance from ILO headquarters. The draft Labour Code was submitted in advance to the ILO for its comments. And the version adopted gives ample recognition to basic ILO principles, examples being those related freedom of association and tripartism.

Extensive ILO assistance has been provided in areas including employment and social policies, labour relations, and also labour administration. Reference has already been made to the ILO study mission on economic transformation and employment, and to the follow-up tripartite technical meeting in February 1992. A tripartite ILO mission was also arranged at the Government's request in 1991-92, to evaluate the system of labour inspection. There have been joint ILO and Hungarian national seminars on the labour relations system, aiming to develop agreed procedures for tripartite consultation. ILO missions have been fielded in the area of social security. The Ministry of Labour has strongly recommended the early ratification of 12 additional Conventions, over and above the 52 Conventions already ratified. Thus the overall concern of the Hungarian Government, to carry out its economic and political restructuring with due regard to ILO Conventions as appropriate, would appear fairly evident.

The scope of this case study has been extensive, covering respectively employment policies and human resource development, social policies and social security, and labour law and industrial relations. It is not considered useful or practical, to assess all the issues raised from the perspective of either ratified or unratified ILO Conventions. A detailed examination of the 1992 Labour Code for example, from the perspective of ILO standards, would be beyond the scope of this study and the capacity of its author. The following comments adopt a broad-brush approach, examining a limited number of issues by reference to ILO Conventions. They also ask whether the policy and project approaches of the Bretton Woods institutions raise any questions with regard to the application of ILO Conventions; and, if so, how a closer attention to ILO standards might affect future policy approaches.

8.2 Labour law and industrial relations

This case study was undertaken, only a very short time after the enactment of the new Labour Code. Thus it was far too early to assess its practical effect on the conduct of labour relations. The formal aspects of the evolving labour relations system are clearly in line with ILO Conventions and principles, with the strong emphasis on tripartism, on freedom of association and collective bargaining.

The existing tripartite machinery has a number of weaknesses, recognised by each of the social partners, given the largely consultative nature of many of the tripartite bodies. But this is a domestic problem, deriving from both the weakness of existing unions and the lack of experience in genuine collective bargaining. The ILO Conventions can themselves provide limited guidance, as to the means by which the tripartite machinery can be strengthened in practice.

In the context of privatization, an issue of obvious importance is the procedures for termination of employment. The relevant ILO instrument is the Termination of Employment Convention, No. 158 of 1982, not ratified by Hungary; and in particular its supplementary provisions requiring consultation with workers' representatives concerning termination of employment for economic, technological, structural or similar reasons. These questions appear to be covered indirectly by Article 22 of the Labour Code, permitting trade unions to request information from employers with respect to all issues relating to employment; and more directly by Article 65 of the Code, requiring employers to elicit the opinion of the Works' Council concerning measures including privatization that will impact upon a major group of employees.

While Convention No. 158 is a fairly flexible instrument, the accompanying Recommendation No. 166 has useful supplementary provisions for mitigating the effects of termination. It calls *inter alia* for collaboration between the competent authority, the employer and the workers' representatives concerned in placing the workers affected in suitable alternative employment as soon as possible, with training or retraining where appropriate. It also recommends the provision of income protection during any course of training or retraining, or total reimbursement of expenses connected with training or retraining. As observed above, training has not so far been identified as a priority by trade unions in the context of negotiations.

8.3 Employment and unemployment

Measures have certainly been taken, to deal with the rapid emergence of high levels of open unemployment. After 1989, Hungary was the first of the former socialist countries to adopt a formal programme of unemployment compensation. The need for such compensation has been fully recognised by the Bretton Woods institutions, which have addressed unemployment in both their policy research and sectoral programme lending. Problem areas have related to the levels of unemployment benefit, and the duration of its payment, but the ILO Conventions contain no specific guidance on these issues.

Further significant problems relate to employment policy and promotion. The Bretton Woods institutions accept that stabilisation and structural adjustment are likely to lead to high short-term unemployment rates. In their policy recommendations, they have placed much emphasis on improved employment services, together with the dismantling of perceived labour market rigidities. As in most other cases they advocate a significant reduction in hiring and firing costs, flexible labour contracts, and a relatively low minimum wage.

A major issue is the arguments for more active employment policy measures, in the light of the increasing costs of passive measures at a time of budgetary constraint, and the means by which more active measures should be funded. Employment promotion has been addressed in law, notably in the 1991 Employment Act as amended, which provides for a range of

positive employment creation measures. In practice, employment considerations appear to have been given very low priority in the context of privatization. The ILO's 1991 employment mission recommended far more attention to active measures, without referring specifically to any ILO standards. In its 1991 Direct Request under the Employment Policy Convention, the Committee of Experts requested the Government to "indicate generally the extent to which the active employment policy pursued meets the requirements of the Convention with regard both to the objectives defined and to the methods of application".

The recent Hungarian experience certainly demonstrates the importance of having a coherent employment policy, whatever the difficulties in maintaining or creating socially acceptable levels of employment. The ILO's Convention No. 122 cannot dictate the means of achieving its objectives of "full, productive and freely chosen employment", but it can help to ensure that these objectives are given their due importance in any restructuring process. The ILO's 1991 mission pointed to a number of missed opportunities, "primarily due to the low priority given to employment in decisions on liberalization, restructuring, privatization, foreign investment promotion, taxation and the funding of social benefits". It appears equally clear that the stabilisation and adjustment policies advocated by the Bretton Woods institutions did not give high priority to employment creation in the short term, but that the consequences in financial as well as social costs are now being felt.

8.4 Social policies

As regards social security protection, the main concern of the Bretton Woods institutions is with the high payroll taxes levied in order to finance the system. There are concerns to maintain minimum degrees of protection, but to ensure improved targeting, to streamline the benefits, and to reduce the extent of certain benefits. This involves, for example, raising pension ages, eradicating certain family benefits, and reducing the duration of payment of unemployment benefits. There are concerns to move social security from the State budget, but there is a general acceptance that the State has a continuing important role to play in the provision of social assistance.

When the case study was undertaken, social security reforms were still the subject of intense negotiation, and a new law had not as yet been adopted. It is thus pointless to examine specific measures by reference to ILO standards. Suffice it to say that the average protection levels were high during the previous socialist governments, considerably superior to the minimum protection required by the pertinent ILO Conventions. There are no indications that likely reforms, as envisaged by the Bretton Woods institutions, would prejudice the application of ratified ILO Conventions. The issues relate to long established national values, with particular regard to universal and family benefits.

9. Conclusions

This case study has been more discursive than the others, discussing issues of structural adjustment in a society undergoing extensive transformation of its political and social as well as economic institutions.

Rather more than in the developing countries, the Bretton Woods institutions have addressed the positive dimensions of social policy in their structural and sectoral adjustment

lending. There have been few signs of overt conditionality, requiring the dismantling or substantial reform of existing institutions for social protection. Problematic issues have certainly arisen, with regard to the levels of protection and the financing of benefits. But the need for strong institutions is evidently accepted, to mitigate the adverse consequences of adjustment with particular reference to unemployment.

The reforms to labour law and industrial relations systems can be seen as autonomous, in the furtherance of democratic values following political transition, rather than as a response to particular external demands in the context of structural adjustment.

There are major difficulties with regard to employment policy, including the promotion and protection of employment. This problem is of course not unique to Hungary, but affects all the formerly socialist countries now undergoing a transition to a market economy. The concerns to promote rapid privatization of overmanned State enterprises are bound to lead to high levels of open unemployment. Little attention has been given to active employment policies, complementing unemployment compensation programmes and better labour market information through improved and restructured employment services.

A particular problem in Hungary has been the lack of acquaintance with the ILO Conventions themselves, outside a select group in the Ministry of Labour, the trade unions and employer organizations. There are linguistic reasons for this, in that the ILO's Conventions and Recommendations have not been translated on a systematic basis into the Hungarian language. This means that parliamentarians among others may have no familiarity with ILO instruments, at a time when new labour and social legislation is being considered. This may be one reason why little attention has been given to ILO standards at the national level, in the broader discussions concerning law and policy reform during restructuring. It calls for more promotional work by the ILO itself, to draw attention to the potential importance of ILO standards among legislators and other policy makers involved in the restructuring process.

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