8. Hungary: Public sector labour market from crisis to crisis

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1. INTRODUCTION

As a combined result of falling tax revenues, the implementation of automatic stabilizers and fiscal expansion, several EU member states had accumulated huge budget deficits by the end of 2009. Increased current deficits and growing public debts require major cuts in public expenditure and public sector downsizing throughout Europe. Despite a number of similarities, however, Hungary’s road to fiscal turmoil differs from the majority in several ways.

Since the mid-1980s, the Hungarian economy has had an inclination to rush into severe external and internal imbalances, which has brought the country to the verge of financial collapse at least five times in the past 22 years (1989, 1995, 2006, 2008 and 2011). The stabilization packages addressing these crises were regularly followed by episodes of fiscal expansion, which drove the economy to the next crisis and renewed austerity measures. The latest wave of restrictive measures started in 2006, preventing the budget deficit from growing substantially during the crisis. Fiscal stability was achieved with the help of an IMF–EU stand-by loan and major cuts in social expenditure, public investment and public sector wages, among other things. The austerity measures of Gordon Bajnai’s government included the abolition of the thirteenth-month wage and pensions in the public sector, the abolition of the Swiss indexation of pensions, a scenario of increasing the retirement age from 62 to 65 years, reducing paid leave for mothers from three to two years, cutting the flat-rate, per-child family allowance and curtailing subsidies and allowances for housing, heating, travel and farming. As a result, the budget deficit grew by a mere 0.2 percentage points, from 3.6 to 3.8 per cent in 2009.

A failed attempt to speed up the economy by means of tax cuts by the Fidesz government, which took office in May 2010, led to increasingly aggravating fiscal problems in 2011. In 2010, GDP grew by 1.3 per
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cent and the estimate for 2011 is still only 1.7 per cent. In 2012, GDP is expected to fall by at least 0.5 per cent. The current deficit was kept under control by levying ‘crisis taxes’ on the financial sector, telecommunications, energy and large retail trade companies, while the public debt was temporarily reduced by the ‘nationalization’ of 12 years of private pension savings. The unorthodox measures of the so-called ‘economic freedom fight’ severely damaged the country’s reliability in the eyes of investors, increased its country-risk indicators high above the regional average and pushed the interest rate on Hungarian government bonds to the vicinity of 10 per cent by the end of 2011. The government contacted the IMF again in November 2011.

Currently, both the EU (Ecofin and the European Central Bank) and the IMF consider Hungary’s fiscal policy to be unsustainable and are calling for austerity measures and structural reforms as a condition of support. They also demand the withdrawal of several legal acts which encroach upon the autonomy of the central bank, call into question the security of private contracts, contradict the principle of *nulla poena sine lege*, reduce the transparency of fiscal policy and threaten government control over the judiciary and the media. The forthcoming austerity measures will inevitably affect public sector jobs and wages.

The chapter begins with an overview of the measures taken (Section 2) and discusses how public sector workers are affected by them (Section 3). It addresses emergency steps and reforms in public education and health care through case studies in Section 4. Section 5 discusses policy issues and Section 6 concludes. The discussion of the crisis and its aftermath is preceded by a concise introduction to the characteristics of the Hungarian public sector.

Past developments are followed until May 2010 or January–March 2011 using micro-data from the Wage Survey (WS) and the Labour Force Survey (LFS) on wages and employment, respectively. Aggregate figures are added using published statistics relating to 2011 and early 2012. Current developments and future plans are discussed on the basis of media reports, internet sources and legislative documents (nearly all of them in Hungarian). We must add the caveat that, given decision-making patterns in contemporary Hungary, which are best characterized by the fact that the government issued and/or sent to the parliament for approval a daily average of more than three acts, decrees and resolutions in 2011, the plans that were introduced are volatile, their technical details are often unclear and few are based on publicly available *ex ante* impact evaluations. Forecasting is always difficult but it is nearly impossible in the Hungarian case.
2. PUBLIC SECTOR ADJUSTMENTS

2.1 Size and Characteristics of the Hungarian Public Sector

Hungarian law distinguishes employees under the scope of the Labour Code from civil servants (köztisztviselő) and public employees (közalkalmazott), who are subject to special rules. Another dividing line separates those who work in state-run institutions and state-owned firms from workers employed by private businesses. A third distinction sets apart state-dominated sectors and predominantly privately run industries. Finally, there is a grey area around the public sector, a multitude of private businesses fully dependent on state-run institutions that perform outsourced activities or deliver goods and services exclusively for government orders.

While the numbers of those who work for the public sector vary with the definitions of ‘civil service’ and ‘employment’ (Table 8.1) they do not fall very far from each other and suggest that about 26–30 per cent of employees and roughly one-quarter of all employed persons work for the public sector.

The size of the grey area around the public sector is even more difficult to estimate. Using LFS data, Elek and Szabó (2011) find that in 1998–2002 about 40 per cent of the shifts from the public to the private sector involved no change in the respondent’s job, which hints at large-scale outsourcing. In 2002–08, this type of ‘apparent outflows’ already accounted for a much lower proportion within total outflows. The number of government-dependent private businesses is impossible to assess.

Within the public sector, public administration and education each have about a 37 per cent share, while health and social services account for 26 per cent. Local government employs 57 per cent of the public sector’s workforce but the central government’s institutions in public administration constitute one of the largest branches within the sector. International comparative data in OECD (2011) suggest that in both 2000 and 2008 the Hungarian public sector was fairly large in relative terms, the fifth largest in Europe after the northern countries and France.

The conditions of employment differ from those in the private sector in several ways. The Acts on Civil Servants and Public Employees (first issued in 1992) prescribe special rules for firing and hiring. Civil servants are required to pass an examination in order to be appointed and/or confirmed, and both them and public employees are entitled to extended periods of notice and severance payments (up to 20 months’ salary for public employees and a maximum of about 15 months’ pay for civil servants) in the case of dismissal. Public employees are allowed to join trade unions and set up within-institution consultative bodies analogous to
work councils (közalkalmazotti tanács), which provide further protection against job loss, at least potentially. In 2004, the fraction of workers covered by collective agreements amounted to 50 per cent in education and 53 per cent in health in contrast to a 40 per cent national average. The share of employees represented by establishment-level works councils were 51 and 41 per cent, respectively, compared to a 36 per cent national average (Fazekas and Koltay 2005: 339 and 351).

Public sector jobs are well protected but this statement requires qualification. Elek and Szabó (2011) find that while the risk of becoming unemployed is about three times lower in the public sector, those actually losing their job have a lower probability of finding a new one. Using LFS data from 1998 to 2008 and a discrete time hazard model they estimate that the relative risks of re-employment do not differ substantially by sector of origin in the case of unskilled workers (odds ratios above 0.93) but skilled job seekers coming from the public sector are significantly worse off than their counterparts from the private sector (odds ratios of 0.49 and 0.54 for workers with secondary and higher education, respectively).

Table 8.1 The public sector’s share in total and dependent employment, Hungary, 2011Q1

<table>
<thead>
<tr>
<th>% of total employment</th>
<th>% of dependent employment</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment-based data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil servants and public employees</td>
<td>n.a.</td>
<td>29.7&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Civil servants and public employees</td>
<td>n.a.</td>
<td>27.3&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>LFS data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed in a state-owned establishment (state-owned firm or public institution)&lt;sup&gt;c&lt;/sup&gt;</td>
<td>26.4</td>
<td>31.6</td>
</tr>
<tr>
<td>Employed in a state-owned institution within public administration, education, health or social services</td>
<td>23.1</td>
<td>26.5</td>
</tr>
</tbody>
</table>

Sources:
(a) Central Statistical Office (CSO), www.ksh.hu Stadat 2.1.29.2. downloaded 2011.11.06. The establishment-based data relate to public institutions and firms employing 5 or more workers. Civil servants and public employees working in public institutions employing less than 5 workers are, therefore, excluded.
(b) Wage Survey 2009, based on the sum of weights calculated by the Employment Office.
(c) LFS, authors’ calculation. Employment defined according to the ILO–OECD guidelines. Dependent employment includes workers employed in firms with fewer than 5 employees.
In the public and private sectors wages are set according to wage grids determined by the aforementioned laws and updated (or not) by the government. The grids define wage brackets for civil servants and minimum salaries for public employees, taking into account educational attainment, skill requirements and tenure in the civil service. The wage grid sets linear age–earnings paths for public employees unless they augment their formal educational attainment and/or shift to jobs with higher-skill requirements during their service. Employers are allowed to pay more than the base wage depending on their financial capacity and the worker’s merits.

High-skilled professionals having their first job in the public sector often have formal or informal secondary sources of income. Formal secondary job holding is exceptional among public sector workers without a university diploma but it amounts to about 5 per cent in public administration, 6 per cent in education and 8 per cent in health among professionals, according to LFS data from 2011. Many skilled public sector employees also have private businesses but the amounts earned via business contracts are unknown. Physicians earn more than double their official salary in the form of gratuities, on average, as discussed in detail in Section 4.

2.2 Nature, Scale and Timing of Public Sector Adjustments

Thus far, the burden of adjustment has fallen almost entirely on wages. The elimination of the thirteenth-month wage was among the first measures taken as early as 2009. Furthermore, the wage grid has not been adjusted for inflation since January 2008. The minimum wage also fell in real terms in 2009–10 as shown in the brief overview presented in Table 8.2. In order to assess the magnitude of change it is useful to recall the pre-crisis evolution of public sector wages. The public/private wage gap has displayed large fluctuations in the past 20 years, between –25 and +15 percentage points.

As shown in Figure 8.1, the public sector’s relative wage controlled for gender, experience, education and region fell from about 5 per cent below the private sector’s level to –25 per cent during the stabilization programme of 1995–96 (the ‘Bokros package’). A period of slow recovery in 1997–2000 was followed by a series of spectacular rises resulting from one-off government decisions.

First, Viktor Orbán’s first government almost doubled the minimum wage, raising it from 25,500 HUF on 31 December 2000 to 50,000 HUF on 1 January 2002. The public sector was strongly affected by the hike: at the time of the decision over 60 per cent of the public employees without college or university diploma earned less than 50,000 HUF compared to 40 per cent in the private sector, according to WS data.
Second, just before the elections of May 2002, the government substantially raised the pay of civil servants, which increased the real average wage by 17 per cent in the public sector as a whole as opposed to 7 per cent growth in the private sector.

Table 8.2  Measures affecting public sector wages, Hungary, 2008–2012

<table>
<thead>
<tr>
<th>Measure</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic wage</td>
<td>The wage grid for civil servants and public employees has not been adjusted for inflation since January 2008. The monthly base salaries of civil servants were limited to a maximum of HUF 2 million (or about €6,700) in 2010.</td>
</tr>
<tr>
<td>Bonuses</td>
<td>The thirteenth-month salaries for civil servants and public employees were abolished in 2009.</td>
</tr>
<tr>
<td>Minimum wage</td>
<td>The minimum wage increased slightly in 2009 (3.6%) and 2010 (2.8%) and more substantially in 2011 (6.1%) and 2012 (19.2%). In real terms, the changes amounted to –1.9, –1.8, 2.1 and 13%. In 2012, the minimum wage was increased to compensate for the fall in the net earnings of low-wage workers due to changes in personal income tax.</td>
</tr>
</tbody>
</table>

Note: Estimates from benchmark Mincer equations (log wage regressed on experience, experience squared, years in school, a female dummy and a public sector dummy). The log point estimates of the gap (b) are converted to percentage points differentials (d) as \( d = 100e^b \).


Figure 8.1  Regression-adjusted public–private wage gap, Hungary, 1985–2010 (percentage points)
Third, and most importantly, the socialist government taking office in May 2002 increased the base salary of public employees by 50 per cent, with the supporting votes of the opposition, sticking to its pre-election promises. The pay rise implied a 29 per cent jump in the average wage of public employees in real terms between May 2002 and 2003, as compared to ‘only’ an 11 per cent rise in the private sector. The public sector wage penalty (–6 per cent in 2002) changed into a substantial premium of 11 per cent in 2003 and 15 per cent in 2004.

The advantage, however, disappeared in the course of only three years. On the one hand, as shown in Telegdy (2011), pay rises in the public sector had a strong spillover effect: in those occupations where workers can move between the two sectors, private sector wages grew significantly faster after 2003. On the other hand, the huge internal and external deficits accumulated by 2006 required a new wave of austerity measures, which brought the public sector’s wage advantage down to zero by May 2007.

The abolition of the thirteenth-month salary of civil servants and public employees in 2009 implied an immediate 12 percentage point decrease in the sector’s relative wage. Furthermore, the base salaries of civil servants and public employees were practically frozen at their 2008 level until recently. These measures brought the public sector penalty back to a low of –12 per cent, a level unprecedented since 1999.

The enormous fluctuations in the level of public sector pay had virtually no effect on within-sector relative wages until 2008–10. This is shown by the shifts in the age–earnings profiles by skill groups in Figure 8.2. The profiles of skilled civil servants remained practically unchanged until 2008 but older workers were slightly more affected by the cuts in 2009–10. The case was different at lower-skilled levels. In 2001, the age–wage profile was practically flat. In 2001–04, the wages of young unskilled workers grew by a lower rate, which restored an upward-sloping age–earnings profile. The crisis brought about a dramatic, 25 percentage point fall in the relative wages of unskilled public sector employees, with younger workers being slightly more affected.

Compared to wages, public sector employment changed little until recently (Figure 8.3). The size of the public sector grew substantially in the early transition period, when several tasks previously performed by the Party apparatus and state-owned firms were transferred to what we call the public sector today. This expansion was halted by the Bokros package, which brought about a 10 per cent fall in public sector employment. After 2000, the public sector started to grow again, until 2006, when budget deficits reached 10 per cent of GDP, enforcing job cuts.

Perhaps surprisingly, public sector employment followed a downward trend only until 2008, the first year of the international financial
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...crisis, while it grew in 2009–10. Recent developments are summarized in Table 8.3. On the whole, public sector employment grew substantially, by 4.7 per cent between January–March 2008 and 2010 and fell only slightly, by 1.7 per cent, between January–March 2010 and 2011.

The growth rate in 2009 was particularly large in public administration, education and outpatient social services, and was probably explained by the expansion of public works schemes. According to the Budapest Institute (2011) the annual average stock of participants employed by local governments in public works programmes increased by 40,000 (from 20,000 to 60,000) in this period, which roughly corresponds to the net growth in total public sector employment. Despite cuts in some branches, the public sector as a whole employed more people in January–March 2011 than three years earlier, by 3 per cent, which compares to a 4.8 per cent employment loss in the private sector.

The expectations concerning future developments are less promising – some recently decided measures in public administration and higher education threaten large-scale dismissals. The plan to further cut employment in public administration by 30,000 or about 13 per cent in 2011 clearly failed: in January–November 2011 employment was lower by only 1.3 per cent compared to the same period of 2010 (KSH 2012, public works participants excluded). Large-scale dismissals will probably take place within the framework of the forthcoming restructuring of public administration, which will shift a part of local government authority from the community to the micro-region level.

As far as higher education is concerned, in January 2012, just four weeks before the deadline for applications to colleges, the government decreased the number of state-funded places for first-graders from 53,500 (2011) to 29,570 (2012). A further 15,500 freshmen are expected to pay 50 per cent of the tuition fees, which had been determined by the government for each field of study. The final decision on quotas by field of study was made personally by Prime Minister Viktor Orbán. Preference was given to science, engineering, sports and a newly founded School of Public Administration as opposed to social sciences and humanities. The state-funded quotas were cut more in fields in which students’ propensity to pay tuition fees was higher in the past but the quotas for economics (including business) and law were particularly severely cut, from 4,900 to 250 and from 800 to 100, respectively. As a second step, still in January 2012, the number of fully and partly state-financed places was determined by the state Secretariat of Education for each field of study within each college/university. The reduction of state support resulted in a 30 per cent drop in applications, which will force the affected universities to lay off professors and staff and/or further decrease their wages.
Age-earnings profiles: tertiary education

2001 and 2004

2004, 2008 and 2010

Age-earnings profiles: secondary education

2001 and 2004

2004, 2008 and 2010
Note: The figures show earnings by single year of age. National average wage = 1.0. Individual wages are compared to the national average wage rather than to the earnings of private sector workers of similar age and education. This is why the profiles are upward sloping rather than U-shaped.


Figure 8.2 Age–earnings profiles of civil servants and public employees, Hungary, 2001, 2004, 2008 and 2010
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![Graph showing employment in the public sector, 1986–2011 (headcount, thousand)](image)

Source: CSO-Stadat and Wage Surveys.

Figure 8.3 Employment in the public sector, 1986–2011 (headcount, thousand)

Table 8.3 Employment in branches dominated by the public sector, Hungary, 2008–2011 (numbers and index 2008=100)

<table>
<thead>
<tr>
<th>Branches</th>
<th>Numbers</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public admin.</td>
<td>273.6</td>
<td>282.8</td>
</tr>
<tr>
<td>Education</td>
<td>313.4</td>
<td>304.4</td>
</tr>
<tr>
<td>Health</td>
<td>161.2</td>
<td>157.9</td>
</tr>
<tr>
<td>Social 1</td>
<td>57.2</td>
<td>50.6</td>
</tr>
<tr>
<td>Social 2</td>
<td>28.0</td>
<td>28.0</td>
</tr>
<tr>
<td>Total public</td>
<td>833.5</td>
<td>823.8</td>
</tr>
<tr>
<td>Total private</td>
<td>3,010.6</td>
<td>2,940.2</td>
</tr>
<tr>
<td></td>
<td>3,844.2</td>
<td>3,764.1</td>
</tr>
</tbody>
</table>

Notes:
- Social 1: social care, inpatient services. Social 2: social care, outpatient services.
- Employment in state-owned enterprises and institutions outside the indicated branches is accounted as part of the private sector. Includes participants in public works programmes.

Source: Authors’ calculation from the Labour Force Surveys of the first quarter of each year.
3. EFFECTS OF THE ADJUSTMENTS

In this section, we give a brief overview of the impact of adjustments on wages and non-wage amenities with special emphasis on how the overall position of women, heavily overrepresented in the public sector, is affected.

We start with Table 8.4, which presents data on two wage measures. Full-time equivalent (FTE) monthly earnings correspond to what the CSO and the Employment Office publish. Denoting a worker’s observed earnings during the month with $w$ and his/her paid hours with $h$ the FTE measure is computed as $168\left(\frac{w}{h}\right)$, in other words, hourly earnings times the paid hours of a full-time, full-month employee. This measure

<table>
<thead>
<tr>
<th>Civil servants</th>
<th>Judges, attorneys</th>
<th>Public employees</th>
<th>Non-profits</th>
<th>Public sector</th>
<th>Private sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FTE average monthly earnings (thousand HUF)</strong>$^b$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>283.3</td>
<td>388.4</td>
<td>192.3</td>
<td>176.4</td>
<td>209.5</td>
<td>189.6</td>
</tr>
<tr>
<td>2010</td>
<td>272.0</td>
<td>314.3</td>
<td>195.7</td>
<td>162.7</td>
<td>189.6</td>
<td>201.1</td>
</tr>
<tr>
<td><strong>Actual average monthly earnings (thousand HUF)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>282.6</td>
<td>386.1</td>
<td>186.2</td>
<td>163.4</td>
<td>203.7</td>
<td>185.3</td>
</tr>
<tr>
<td>2010</td>
<td>267.5</td>
<td>310.0</td>
<td>184.2</td>
<td>148.4</td>
<td>185.3</td>
<td>189.2</td>
</tr>
<tr>
<td><strong>Ratio of actual to FTE earnings (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>99.7</td>
<td>99.4</td>
<td>96.8</td>
<td>92.6</td>
<td>97.2</td>
<td>97.7</td>
</tr>
<tr>
<td>2010</td>
<td>98.4</td>
<td>99.0</td>
<td>94.2</td>
<td>91.2</td>
<td>95.0</td>
<td>94.1</td>
</tr>
<tr>
<td><strong>Change of nominal earnings 2008–10 (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTE</td>
<td>−4.0</td>
<td>−19.1</td>
<td>1.8</td>
<td>−7.7</td>
<td>−9.4</td>
<td>6.1</td>
</tr>
<tr>
<td>Actual</td>
<td>−5.3</td>
<td>−19.4</td>
<td>−1.0</td>
<td>−9.2</td>
<td>−9.0</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Change of real earnings 2008–2010 (%)$^c$</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTE</td>
<td>−11.5</td>
<td>−25.4</td>
<td>−6.2</td>
<td>−14.9</td>
<td>−16.5</td>
<td>−2.2</td>
</tr>
<tr>
<td>Actual</td>
<td>−12.7</td>
<td>−25.7</td>
<td>−8.8</td>
<td>−16.3</td>
<td>−16.1</td>
<td>−5.9</td>
</tr>
</tbody>
</table>

Notes:
Number of observations: 218,323 in 2008 and 245,484 in 2010. The data exclude the participants of public works programmes.

a. The economy-wide nominal average wage grew by 3.6 % (from 195,643 HUF to 202,729 HUF) according to the Wage Survey. The establishment-based CSO figures hint at lower wage increase (2.8 %, from 195,824 HUF to 201,255 HUF) in the same period. See http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_evkozi/e_qli007c.html.

b. Actual earnings during May ($w$) adjusted for the number of paid hours ($h$). The FTE figure is computed as ($w$/h)*168, i.e., hourly earnings times hours worked by a full-time, full-month employee.


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Table 8.5  Incidence of low pay: percentage earning less than two-thirds of the median wage, Hungary, 2008 and 2010

<table>
<thead>
<tr>
<th>Level of education:</th>
<th>Less than secondary</th>
<th>Secondary (matura)</th>
<th>Higher (college, university)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil servants</td>
<td>36.1</td>
<td>54.8</td>
<td>4.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Public employees</td>
<td>17.3</td>
<td>23.2</td>
<td>5.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Non-profits</td>
<td>50.4</td>
<td>78.2</td>
<td>18.5</td>
<td>28.1</td>
</tr>
<tr>
<td>Public sector</td>
<td>23.7</td>
<td>41.6</td>
<td>5.7</td>
<td>7.4</td>
</tr>
<tr>
<td>Private sector</td>
<td>38.1</td>
<td>38.4</td>
<td>20.8</td>
<td>27.5</td>
</tr>
<tr>
<td>Total</td>
<td>35.7</td>
<td>39.1</td>
<td>15.9</td>
<td>24.2</td>
</tr>
</tbody>
</table>

Note: Number of observations: 218,323 in 2008 and 245,484 in 2010. For the size of the particular groups see Table 8.5. The data exclude the participants of public works programmes.


overestimates the earnings of workers who worked less than 168 hours in the reference month in a given job and did not work the rest of the month. By contrast, actual observed wages tend to underestimate the monthly earnings of workers who worked less than 168 hours in one job but worked the rest of the month in another job. Furthermore, the FTE wage indicator measures the hypothetical full-time, full-month earnings of part-timers rather than what they actually make during the reference month. The larger the share of part-timers and the more workers lose their jobs the wider the gap between the two wage measures.

As shown in Table 8.4, wages fell even in nominal terms in the Hungarian public sector between 2008 and 2010. In real terms, public sector wages fell by 16–17 per cent as opposed to −2.2 per cent (FTE earnings) and −5.9 per cent (actual earnings) in the private sector. Civil servants, judges and attorneys and the employees of non-profit organizations were particularly severely affected. The ratio of actual to FTE earnings fell in nearly all segments of the economy, hinting at a decrease in working hours (see later) and increased labour turnover.

The data in Table 8.5 suggest that the earnings of many unskilled public sector workers sank below the low-wage threshold by May 2010, when more than half of the unskilled civil servants and over three-quarters of the unskilled non-profit employees earned less than two-thirds of the median wage. The fraction of low-paid workers grew less among unskilled public employees, while the low-wage share of their private sector counterparts
Hungary remained virtually constant. In the category of employees with secondary school background low-wage employment became more prevalent in the private and non-profit sectors. Earnings below two-thirds of the median were and remained exceptional among high-skilled public sector employees.\(^\text{10}\)

The crisis brought about substantial changes in the position of the public sector within the wage distribution (Figure 8.4). In 2008, the public sector was strongly underrepresented in the lower tiers of the distribution, while in 2010 its share already amounted to 20–30 per cent in the 1st–20th percentiles. This change resulted from wage cuts in the public sector, as well as the loss of low-wage jobs in the private sector. If we include public works participants (for whom wage data became available in 2010) we find that the public sector became the dominant provider of jobs in the 1st–10th percentiles of the wage distribution.

Table 8.6 gives an overview of how working time and some other non-wage characteristics changed in public administration, education, health and two types of social services. The data suggest that the usual weekly working time fell slightly but the share of part-timers grew significantly (relative to the base-period average of 5.8 per cent). A crisis can be expected to have both negative and positive effects on the part-time share: marginal workers such as part-timers face higher risk of dismissal (negative), employers may terminate full-time jobs and create part-time ones.

\[\text{Note: The curves have been smoothed with locally weighted non-linear regression.}\]


**Figure 8.4 Share of public sector workers in percentiles of the wage distribution, Hungary, 2008 and 2010**
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While total working time did not change dramatically, its distribution across days did: the proportion of employees working in the evening, at night and at the weekend increased substantially everywhere except for education (for obvious reasons). The move toward ‘atypical’ work schedules was monotonous after a jump in January 2009, when employers were given increased authority to determine the distribution of working hours over an extended period.

The share of fixed-term contracts did not change markedly, nor did the share of agency work. However, similar to the case of part-timers, we only observe the net effect of positive and negative forces, and in the case of agency work reporting errors may also bias the observations: it is likely that many LFS respondents with agency contracts reported that they worked for a certain enterprise rather than for an agency.

The past, ongoing and forthcoming adjustments affect nearly all groups within the public sector, from university professors to janitors in the kindergartens. It seems too early to try to assess how wider social groups will be affected, with the possible exceptions of the unskilled, who experienced

Table 8.6  Changes in selected indicators of the private and public sectors, Hungary, 2008Q1 and 2011Q1 (percentage points)

<table>
<thead>
<tr>
<th></th>
<th>Private sector</th>
<th>Public admin</th>
<th>Education</th>
<th>Health inpatient</th>
<th>Social inpatient</th>
<th>Social outpatient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usual weekly</td>
<td>–0.5</td>
<td>–0.9</td>
<td>–1.5</td>
<td>–0.2</td>
<td>–0.2</td>
<td>–0.5</td>
</tr>
<tr>
<td>working time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(hours)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part-time job</td>
<td>1.8</td>
<td>2.9</td>
<td>1.8</td>
<td>3.4</td>
<td>0.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Evening work*</td>
<td>10.9</td>
<td>8.6</td>
<td>3.1</td>
<td>14.3</td>
<td>11.8</td>
<td>7.7</td>
</tr>
<tr>
<td>Night work*</td>
<td>4.8</td>
<td>6.3</td>
<td>1.0</td>
<td>9.3</td>
<td>8.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Saturday work*</td>
<td>8.3</td>
<td>6.3</td>
<td>2.3</td>
<td>13.6</td>
<td>12.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Sunday work*</td>
<td>6.2</td>
<td>4.8</td>
<td>2.0</td>
<td>12.9</td>
<td>12.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Temporary agency work</td>
<td>0.2</td>
<td>0.5</td>
<td>–0.1</td>
<td>0.1</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed-term contract</td>
<td>0.7</td>
<td>1.4</td>
<td>1.5</td>
<td>0.1</td>
<td>–0.4</td>
<td>–2.1</td>
</tr>
</tbody>
</table>

Note:  * At least occasionally.

Source:  LFS 2011Q1, authors’ calculation.
particularly severe wage losses (as was shown in Figure 8.2) and women, who are highly overrepresented in the public sector.

The public sector currently employs 36 per cent of the female labour force as opposed to only 18 per cent of males (LFS data, 2011Q1). With only a few exceptions, women’s share exceeds two-thirds of the unskilled workforce, and the female share is also very high among medium-skilled employees in public administration and health (Table 8.7). The female share is again high among workers with tertiary education, with the exception of higher education. Women were overrepresented in all branch education cells except for high-skilled employees in higher education. Subsequently, women’s overall earning position is strongly affected by wage developments in the public sector.

Under state socialism, men and women were paid very different wages: women’s disadvantage, controlled for education and experience, amounted to 30 per cent in the ‘private sector’ (state-owned enterprises) and 20 per cent in the public sector. The wage disadvantage diminished rapidly in the early years of the transition in both sectors.

### Table 8.7  Women’s share in public sector employment, by education, Hungary, 2009 (%)

<table>
<thead>
<tr>
<th></th>
<th>Primary</th>
<th>Vocational</th>
<th>Secondary</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public administration</strong> Share</td>
<td>71.1</td>
<td>47.8</td>
<td>80.6</td>
<td>63.4</td>
</tr>
<tr>
<td></td>
<td>1.33</td>
<td>1.54</td>
<td>1.39</td>
<td>1.12</td>
</tr>
<tr>
<td><strong>Public education</strong> Share</td>
<td>92.3</td>
<td>71.6</td>
<td>81.1</td>
<td>81.6</td>
</tr>
<tr>
<td></td>
<td>1.73</td>
<td>2.31</td>
<td>1.40</td>
<td>1.44</td>
</tr>
<tr>
<td><strong>Higher education</strong> Share</td>
<td>73.1</td>
<td>40.9</td>
<td>80.1</td>
<td>44.3</td>
</tr>
<tr>
<td></td>
<td>1.37</td>
<td>1.32</td>
<td>1.38</td>
<td>0.78</td>
</tr>
<tr>
<td><strong>Health and social services</strong> Share</td>
<td>76.4</td>
<td>76.0</td>
<td>81.3</td>
<td>74.0</td>
</tr>
<tr>
<td></td>
<td>1.43</td>
<td>2.45</td>
<td>1.40</td>
<td>1.31</td>
</tr>
</tbody>
</table>


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and settled at similar levels, falling between 7 and 11 per cent after 1994 (Figure 8.5).

However, the large changes in the public sector’s relative wage, on one hand, and women’s strong exposure to these changes, on the other, had a decisive impact on the overall gender wage gap. The second panel of Figure 8.5 clearly shows that the movement towards a narrower gender gap was interrupted by the austerity measures of 1995–98 and 2006–10.

In fact, as shown by the bottom panel, there was a very strong relation-

Note: Coefficients of the female dummy in benchmark Mincer equations (log gross wage regressed on a female dummy, experience, experience squared and years in school) estimated sector by sector in the upper panels and for entire samples in the lower panel.


Figure 8.5 The regression-adjusted gender wage gap, Hungary, 1986–2010 (log points)
ship between the overall gender gap and the public–private gap, at least after 1994 when the within-sector pay differentials settled. The points are located on an upward-sloping line, which suggests that a 1 log point decrease in the public sector’s relative wage increased the overall gender wage gap by 0.36 log points. Even in the absence of discrimination, women as a group suffer more from the public sector wage cuts and they will also be strongly affected by the forthcoming wave of dismissals. Furthermore, given the patterns of dividing household duties, women are also worse affected by the spread of work at the weekend, in the evening and during the night.

4. REFORMS AND EMERGENCY ACTIONS: CASE STUDIES IN EDUCATION AND HEALTH CARE

In this section we give an overview of actions and plans affecting two major branches of the public sector. The nature and gravity of the problems of the public sector differ widely across the branches. Public administration foresees major employment cuts and fundamental reorganization but the details of the short-run plans and structural reforms are not yet known. Higher education is already affected by budget cuts and restrictions on the state-funded quotas of students but the labour market outcomes remain
unpredictable. We therefore discuss developments in two other sectors, health and public education, in more detail.

Health care was severely affected by the doctors’ struggle for higher wages in 2011, similar to several other countries in the region. We summarize the events and outcomes (until April 2012) of this conflict with an eye to their fiscal implications and links to bribery in the health sector. Education is a sphere in which the government has already initiated structural reforms affecting all areas, ranging from school governance and finance to teachers’ legal standing, the structure of the education system, the curriculum and tuition. We try to summarize our understanding of the ongoing reform in Subsection 4.2.

4.1 Case Study 1: Doctors’ Pay – A Year of Exit, Voice and Loyalty

Throughout Central and Eastern Europe, doctors keep fighting for substantial wage increases and many are leaving their home country for better pay and working conditions in Western and Northern Europe. Thousands of Czech, Slovak and Hungarian doctors and residents have deposited notices of resignation and/or went on strike in 2011, as did their Polish counterparts a few years earlier. While reliable statistics are hard to find, the available sources report a growing number of emigrants from the region. In Romania, almost 10 per cent of doctors have emigrated since 2007, according to Holt (2010). In Hungary, 500 to 600 doctors left annually in 2004–08, which compares to 750–800 graduates per year (Kőműves 2008) and the figures have since been on the rise. In 2011, 100 doctors per month applied for a certificate of goodwill required for working abroad (Balázs 2012). In the Czech Republic, about 250 doctors leave annually, according to the Chamber of Physicians’ officials (Holt 2010).

The Czech, Hungarian and Slovak governments seemed to give in, promising pay rises. They fall short of doctors’ demands but are likely to improve relative wages substantially in the near future. In exchange, doctors’ organizations suspended their plans for massive strikes that would paralyse the health service.

In this subsection we summarize a year of doctors’ unrest in Hungary, starting with radical demands on the part of young residents, and ending (thus far) with peaceful negotiations between the professional organizations and the government. A unique feature of the Hungarian version of the story is that the issue of informal earnings was openly included in the debate, at least to begin with. Furthermore, the fiscal vulnerability of the Hungarian economy makes a mutually satisfactory compromise difficult to achieve, which highlights the conflict between welfare and fiscal considerations inherent in this debate everywhere.
4.1.1 Challenges

To begin with, while the low official wages of doctors and nurses has been a matter of debate for several decades in Hungary, no open conflicts emerged before the end of 2010, the birth of what was called the ‘Green Cross Movement’. In 2010, a group of young doctors started a movement to abolish gratuities in the health service, on one hand, and a substantial rise in doctors’ and nurses’ official wages, on the other. A green cross badge on their coats indicated that they were unwilling to accept gratuities. In exchange, they required the doubling of their starting salaries. The proposal was supported by the overwhelming majority of young doctors but strongly opposed by the Chamber of Physicians and other medical organizations dominated by older doctors, who receive the bulk of gratuities.

Several factors seem to explain why the Green Cross Movement, organized by the Residents’ Federation, appeared and why it happened at the end of 2010.

First, young doctors’ pay is indeed miserable: at age 35 it falls short of half of the wage paid to a tertiary-educated worker of similar age in the private sector. At this age, a doctor’s wage advantage over secondary school graduates amounts to only 28 percentage points as opposed to the 159 percentage points average on the part of college/university graduates in the private sector.

Second, the Hungarian health system has been severely infected with under-the-counter payments since the 1950s, when private practice was prohibited and doctors’ relative earnings fell substantially. Private payments in the form of tips and gratuities gradually became a part of doctors’ income and their official wages were step-by-step adjusted for that. Bognár et al. (1999) estimated that in the late 1990s general practitioners, specialists and hospital doctors received about 160 per cent of their official salaries, on average, in the form of gratuities. In other words, they received only about 40 per cent of their total labour income in the form of a salary. Hungary is by no means unique in this respect. Cases of massive under-the-counter payments have been reported in several countries of the region, including Poland (Chawla et al. 1998), Bulgaria (Delcheva et al. 1997), Russia (Sabirianova-Peter and Zelenska 2011), Albania (Burak and Vian 2007) and Greece (Liaropoulos et al. 2008). Young doctors obviously benefit less from the under-the-counter payments and, as newcomers to an opaque system, they are also more likely to suffer from the mutually humiliating practice of giving and accepting such payments. Their low pay prospects and need to accept gratuities, in an era of improving outside options thanks to Hungary’s accession to the EU, drove many of them to join the Green Cross Movement.
Third, the existence of similar problems and actions in Poland, the Czech Republic and Slovakia gave impetus to the Hungarian movement. The striking similarity in the demands and actions (such as the depositing of notices of resignation) clearly indicated that physicians’ organizations had learned from each other in the region.

Last but not least, Hungarian doctors have suffered a huge wage loss since the start of the crisis (Figure 8.6). The wage cuts have affected older doctors most: their official earnings fell from about 90 to 70 per cent of the private sector wage, while younger doctors experienced a 10 percentage point decrease. Beginners were least affected but their level of pay sank markedly, too, without the option of increased compensation ‘under the counter’.

Leading doctors represented by the Hungarian Chamber of Physicians (MOK), the Hungarian Federation of Physicians (MOSZ) and the Hospital Federation (KSZ) rejected the idea of increasing only residents’ wages and directly connecting the issue of pay rises with the fight against informal earnings. After several months of stalemate and informal negotiations, in autumn 2011 the Residents’ Federation started action for a general pay rise for doctors, adopting the method used in the Czech
Republic and Slovakia (depositing notices of resignation), and this time avoiding the issues of tips and gratuities, on one hand, and nurses’ wages on the other. By the end of the year, nearly 2,600 notices were collected, with a warning to activate them in January 2012 unless an agreement was reached. Under pressure of militant action at home, and probably aroused by the escalation of a similar conflict in Slovakia, the government started negotiations with the residents’ movement, which was joined by MOK, MOSZ, KSZ and other professional associations and unions. However, it soon became clear that the Hungarian government cannot solve the problem by way of a one-time, significant pay rise, as happened in fiscally healthy Poland in 2006.

4.1.2 Costs of raising doctors’ pay
The Residents’ Federation is asking for an after-tax monthly salary of 200,000 HUF (€667) for a young doctor and 300,000 HUF (€1,000) for a specialist. Other organizations including MOSZ are asking for a 100,000 HUF rise for doctors and 50,000 HUF for nurses and other skilled employees, while some of the negotiating parties joined in the hope of a medium-run scenario of gradual pay increases.

Rough calculations based on published wage data and renewed tax rules suggest that achieving the Resident Federation’s target would require a pay rise of about 35–45 per cent (after tax). A similarly calculated rate for a specialist falls within the range of 46–53 per cent. Hungarian doctors are demanding a substantial rise, but it is within the realm of feasibility: it corresponds roughly to the 40 per cent pay rise that Polish doctors received in 2006 (Holt 2010). The required amounts also fall short of what unions asked for in neighbouring Slovakia at the end of 2011 (claims of €1,200–€2,350 a month). In December 2011, the government made it clear that an additional burden close to 100 billion HUF (€330 million) is beyond the country’s current fiscal capacity and offered negotiations on smaller initial increases and a medium-term scenario of major future adjustments.

4.1.3 Responses
The immediate measures included the year-end payment of 7–70 thousand HUF in December 2011 as an additional duty allowance, with a promise to make it regular in the future. More importantly, it was agreed that the intakes from some newly introduced taxes on unhealthy food (popularly known as the ‘crisps tax’ or ‘hamburger tax’) will be spent on pay rises in the health sector. An expected 15 billion HUF from this source supplemented by a similar amount saved by means of restructuring medical services would bring the annual extra expenditure in the vicinity of 30
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billion HUF, certainly less than the amount required to accommodate the originally proposed wage levels. Similar to Slovakia and the Czech Republic, the negotiations ended with an agreement on a medium-run scenario rather than an immediate, substantial rise. In March 2012 the parties agreed on a package of 30 billion HUF to be spent on pay rises for hospital doctors, specialists and skilled assistants. The current wage increases fill about one-third of the gap between actual earnings and the target set by the medical unions and chambers. While the open conflicts are over for the time being, the doctors’ fight for higher wages has raised a series of questions for policymaking.

4.1.4 Policy issues

In principle, a rise in medical wages might be financed from external resources but the idea of creating resources other than general budget expenditure does not seem to be popular among doctors and the general public. A recent opinion poll suggests that 88 per cent of the population supports an increase in doctors’ wages, with one-third advocating a 50 per cent rise and 11 per cent proposing a doubling of doctors’ salaries. However, the vast majority (over 80 per cent) of this very same population voted for the abolition of copayments for general practitioner appointments (about €1 per visit) and a charge for hospital stays (€2 per day) in a referendum in 2008. The fact that the referendum was initiated by the now governing Fidesz party makes it nearly impossible for the cabinet to reintroduce copayments. The medical organizations rather propose the redirection of resources from investment to wages, shifting the burden of non-wage expenditure from the health budget to the general budget of local authorities and allowing private payments for purposes other than hotel services (jumping the queue for operations, for instance).

Solving the problem of low pay in the health sector in Hungary and other former socialist countries requires urgent action on the part of the governments but most are – and will continue to be in the near future – unable to finance a substantial rise in medical wages. The current and prospective wage levels are insufficient to contain emigration to Western Europe, which further deepens the fiscal burden through fruitless – at least for the time being – outlays on expensive medical training. The exodus of young doctors continues and there are plans to try to halt it by means of legal restrictions, although this will be difficult in practice: an act on higher education prescribes that doctors working less than 12 years in Hungary in the first 20 years of their career are required to pay back the full cost of their training, totalling about 15 million HUF or €50,000.

Equally important, the current agreements in Hungary and elsewhere are unlikely to foster developments towards a transparent health-care
system. The issue of a possible trade-off between higher medical wages and lower informal payments has almost disappeared from the debate in Hungary. The sources we could find on Slovakia and the Czech Republic are also silent on the problem of under-the-counter payments and its relationship to official wages. While such a trade-off is relevant for the general taxpayer, not the budget itself, a credible programme might convince the public that additional tax revenues are required to finance the way out of the current, deeply unsatisfactory system. The chances of strong popular pressure for such a programme are weakened by the fact that in Hungary informal payments for health care are highly regressive (Szende and Culyer 2006).

4.2 Case Study 2: Public Education: Turning the Clock Back?

As in the rest of the sector, the burden of adjustment to the crisis has fallen entirely on wages in public education. The average wages of teachers with college/university qualifications fell by 2.1 per cent in nominal terms and 9.8 per cent in real value between May 2008 and 2010. In 2008, a 40-year-old teacher earned 43 per cent of what a similarly aged and educated employee made in the private sector. The pay cuts of 2009–10 brought this ratio down to only 38 per cent, according to Wage Survey data. However, low pay in education is part of a broader set of long-term deficiencies which call for structural reform. In this subsection we summarize the main challenges and the government’s reform proposals.

At first sight, recent developments resemble the case discussed in the previous section: teachers and doctors share a common fate of being poorly paid, especially in the middle of their career, and the problem has become more acute during the crisis. However, the policy implications of low pay are rather different in the two professions. EU accession markedly improved the outside options of doctors. The resulting shortages of physicians are immediately perceived by the public, requiring urgent action on the part of the government, while the potentially worsening quality of teachers does not necessitate emergency steps. The risk of open ‘teacher shortages’ is minimal since the pupil/teacher ratios in Hungarian primary and secondary schools are among the lowest in the OECD (2010b). Low pay in education is part of a broader set of long-run deficiencies, which call for structural reforms.

4.2.1 Challenges
A series of school-based tests of literacy and numeracy have drawn attention to the worsening quality of Hungarian education in the past two decades: at least until 2006 the country performed worse and worse at
the PISA tests and lost its once outstanding position in students’ mathematical comprehension. The knowledge acquired in Hungarian schools is difficult to transform into practical skills, as suggested by the available adult literacy test results. (For a concise overview of Hungarians’ test performance over time, see Fazekas et al. 2009). Furthermore, the education system is the least successful within the OECD in moderating initial inequalities: the correlation between parental background and student performance is nowhere as strong as in Hungary (Jenkins et al. 2008). The children of low-educated parents tend to leave school with poor basic competencies, mostly to become unemployed in an economy in which the employment rate of prime-age adults with primary education or less is below 35 per cent.

The system’s inability and/or unwillingness to deal with low achievers is manifested in many ways. Public education is highly ‘segregated’ (Kertesi and Kézdi 2010). Hungary has the highest between-schools to total variance ratio in student performance (OECD 2007) and Csapó et al. (2009) demonstrate that a large part of what seems to be within-school variance actually comes from between-class and between-premises variance. ‘Segregation’ has evolved as a natural consequence of the laissez-faire regulations laid down at the fall of state socialism. Apart from a short period (2005–09), children were allowed to apply to primary schools outside their districts, and schools were permitted to admit children applying from elsewhere conditional on having admitted local applicants. Schools are administered by more than 3,000 local governments, while the number of actual school districts (municipalities connected by daily commuting) barely exceeds 150, the number of NUTS-4 regions. The fact that there is no responsible actor at the level of school districts proper makes efficient action against ‘segregation’ difficult (Varga 2009). The practice of routing disadvantaged children to particular schools and classes affects the Roma minority disproportionately. (The share of Roma among the children of low-educated parents amounts to 37 percent, according to Kertesi and Kézdi 2011.) Havas and Liskó (2006) estimate that while there was a twofold increase in the share of Roma children in primary schools between 1980 and 2003, the number of 100 per cent Roma classes grew by a factor of eight. Furthermore, they found the share of Roma children to be 30 per cent in normal classes, 15 per cent in special classes for high achievers and 70 per cent in special classes for low achievers.

The socialist governments in office between 2002 and 2010 made some efforts at reducing ‘segregation’ by setting municipality-level upper limits to the between-school variance in the share of disadvantaged pupils. They supported several programmes of ‘integrated’ education and allocated more resources to schools dealing with disadvantaged children. In 2005–09,
they prohibited formal entrance exams at primary schools and prescribed that priority should be given to children from a school’s own district, in the first place, and socially disadvantaged children from other districts, in the second. Other applicants could be admitted on the basis of a random draw. They also made efforts at narrowing the quality gap between vocational secondary schools and apprentice-based vocational training by putting more emphasis on the development of basic competencies and increasing the duration of training in the latter. (See Kézdi et al. 2009 and Liskó 2009 on the deficiencies of Hungarian vocational training.) All of these regulations and programmes have been withdrawn by the Fidesz government.

The education system’s deficiencies are further aggravated – and partly explained – by the patterns of teacher selection and teacher training. Varga (2007) demonstrates that the screening process for teachers is characterized by negative selection at every stage. Teaching majors are chosen by worse-than-average students as measured by their secondary school performance. Those who enter a teaching career are recruited disproportionately from training institutions and educational tracks of worse than average quality and the graduates from such colleges are also more likely to remain teachers in the long run. Teacher training is provided in 33 colleges and universities (offering 130 different majors) run without any kind of external outcome assessment (Kárpáti 2009). As much as 80 per cent of the professors in the teacher training system as analysed in Tóth (2008) have no publications at all, less than 2 per cent have 10 or more publications and 90 per cent have zero citations, which provides indirect evidence of the quality of many of these institutions.

4.2.2 Responses
The Fidesz-led government that came to power in 2010 launched a new act on public education at the end of 2011. The leading theme in the reform is centralization – of school finance, school governance and the curriculum. Schools will be owned and financed by central government. Those run by foundations have to reach agreement with the ministry on both their curriculums and possible financial support. The fate of schools run by churches – outside a list of 14 ‘certified churches’ (as approved in a new Act on Church Affairs) – is uncertain, while approved church schools will be financed like the public ones. The act fails to define the principles of school finance, which was previously based on pupil quotas (in most cases supplemented by local governments). Headteachers will be appointed by the government, and their discretion over the curriculum and employment matters will be limited.

A new National Curriculum will be developed in the coming years and it has been announced that schools will be allowed a maximum of 10 per cent ‘deviation’ from its detailed guidelines in terms of the content
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and sequencing of tuition (there is no operational definition of how such ‘deviation’ will be determined or quantified). The plan to centralize the issue of textbooks, and a radical reduction in their variety, was recently cancelled but without publicly revising the idea itself. Teachers’ wages will be set centrally, as will working time. On top of a minimum of 22 hours per week to be spent in the classroom (and a maximum of four further hours of overtime) teachers have to stay in the school building for a further six to 10 hours. The schedule is to be set centrally but the content of activity will be determined by headteachers.

Teacher training is returning to the pre-Bologna system, that is, continuous five-year training for secondary school teachers (except for vocational training school teachers, who train for only four years) and four-year training for primary school teachers. Already in 2012, the state-funded quotas in teacher training were set by the government for each field of study within each college/university. The principles of determining the quotas across teacher training institutions have not been published.

The issue of dealing with disadvantaged and/or poor-performing pupils is also addressed in the reforms. The underlying idea is easy to identify on the basis of press releases by the decision-makers and their actual resolutions: catching-up is best accomplished by separate tracks for high and low achievers rather than by ‘integrated’ education. The plan to launch special classes for primary school entrants in need of further development before joining a ‘normal’ class was finally dropped, but a programme for post-graduate courses to assist low performers (so that they can continue their studies or enter the labour market) was maintained (the so-called Híd [bridge] Programme). The act puts in perspective the advent of 100 per cent Roma schools. Within schools, the reform returns to the practice of separating poor performers by compelling them to repeat grades, which was previously abolished for the first to fourth grades.

Separation based on performance and, in effect, social background will be further enhanced by a major restriction of places in secondary schools in favour of vocational training. The share of uncertified vocational schools will increase from 23 to 35 per cent at the secondary level. The duration of training will be shortened to three years (wherever it previously lasted for four years), and significantly less time (a maximum of 30 per cent) will be devoted to general education and the development of basic competences. To make this reform compatible with regulations on school leaving age, the age floor for compulsory school attendance was decreased from 18 to 16 years. The curriculum will be geared towards the development of practical skills from age 15 and will not prepare the students for the Matura examination required for further studies.

One of the few objectives the reform seeks to achieve by means of incen-
tives rather than prescriptions and prohibition is improving teacher selection by way of offering a ‘teaching career model’, which sets age–wage profiles for five categories of teachers and conditions for moving from one category to the other.24 Graduates are required to spend one year teaching as residents and pass an entry exam to become a teacher. Older teachers may apply for the positions of ‘master teacher’ and ‘teacher-researcher’.

The transformation of public education is undoubtedly a ‘structural reform’, at least as fundamental as the shift away from the highly centralized and curriculum-oriented state socialist education system more than 20 years ago. Unsurprisingly, almost every element of the reform has been criticized by teacher organizations, academics and a sizeable part of the general public.

4.2.3 Policy debates
First, criticisms have been directed towards the recentralization of the school system, the restrictions imposed on schools’ choice of their curriculum and the allocation of resources without clear rules. Further components, such as choosing between compulsory Bible classes and ‘ethics’ classes, which incidentally forces parents and children to reveal their cultural and political preferences, are also under attack.

Second, many experts warn of the risks of shortening the duration of public education in general, especially for disadvantaged children. As a result of this part of the plan, the average completed school years of the younger generation can be expected to fall and the share of students passing the Matura, making them eligible for higher education, will decrease substantially. Observers familiar with international comparative data note that the share of 26–35 year olds (out of school) with a college or university diploma is still only 25.5 per cent in Hungary (LFS data, 2011Q1), well below the Lisbon target of 40 per cent.

Third, there is considerable criticism of the fact that the vast majority of vocational school students and graduates lack the basic skills required at work, many of them are in unskilled jobs and the wage returns to those educated at this type of school are minimal. The government argues that Hungary needs a ‘German-type dual training system’ but any formal similarity between the present and planned Hungarian education and training regime and those of Germany and several other Northern European countries is misleading. Denmark, for instance, operates a three-year dual system of apprentice-based vocational training (Cort 2002) but it develops the basic competences of the students much more efficiently than Hungarian training schools. A comparison of data from the International Adult Literacy Survey (IALS) suggests that Danish vocational school graduates have more years in school, perform better in skills tests and significantly fewer have severe problems in reading, writing and arithmetic.
As many as 65 per cent of them speak English in contrast to only 0.8 per cent of Hungarians. Danish former apprentices have much higher employment rates and relative wages, they are twice as likely as Hungarians to be upwardly mobile, and perform a much wider variety of tasks involving literacy at work. They are also three times as likely as Hungarians to participate in retraining and to change jobs (Köllő 2011). It is fairly unlikely, the critics say, that the proposed reforms – such as the shortening of training and the radical cut in hours devoted to the development of basic competencies – will move Hungary in the direction of Denmark.

Last but not least, the reform has been criticized for a lack of integration efforts. Criticisms refer to a significant improvement in PISA test performance in 2009, especially at the bottom of the performance ranking, suggesting that the move towards a less ‘segregated’ school system was not entirely mistaken, despite its many failures (compare OECD 2007 and OECD 2010a). The decrease of the school leaving age from 18 to 16 years and the setting up of a separate track for drop-outs (Híd Programme), which provides no qualifications whatsoever, are unlikely to result in a higher employment rate for the unskilled. Instead, the argument goes, schools may use this framework to legally get rid of ‘over-age’ pupils, who then predictably become unemployed, as do the vast majority of the unskilled adults in the country.

5. POLICY ISSUES

The overall effects of the crisis, the challenges in health care and the reforms in education pose a series of questions addressed in the public debates, at least in the form of parallel monologues. In this section we touch upon two general issues arising from what was described in previous sections: the potential problems resulting from a wide gap between private and public sector wages and the way in which decisions are made in contemporary Hungary.

5.1 Low Pay in the Public Sector

Public sector wages have fallen significantly since 2006 and lag substantially behind private sector earnings. Furthermore, the linear wage grids for skilled public employees imply that their relative age–earnings profile is U-shaped. The reason is that the actual experience–wage profiles of skilled private sector workers are strongly non-linear: their wages grow rapidly in the first 20 years of service and flatten out later. Currently, young and old public sector workers with a college/university background
earn about 20–25 per cent less than their counterparts in the private sector, but 35–45-year-olds make less than half of what workers of similar age and educational background make in the private sector. The enhanced U-shaped age–wage profile implies that young public sector workers foresee a monotonous decline in their relative earnings in the first 15 years of their career, which decreases the value of choosing a public sector job, barring some very myopic and very far-sighted persons.

The usual argument against these concerns is that skilled workers’ scope for leaving the public sector is strongly limited and thus low wages do not necessarily imply shortages and/or a fall in the quality of services. The argument, however, is not particularly strong. First, the skills of teachers, lawyers, economists and engineers are highly convertible and the outside options of medical workers have also improved substantially in the past few years. Second, low expected pay reduces the number of college applicants in the respective fields of study. Third, low wages constrain the public sector in hiring high-quality workers from the private sector.

Preliminary results from ongoing research suggest that higher wages in the public sector improved the quality of inflows from the private sector. Figure 8.7 measures quality in terms of the regression-adjusted wages of private sector employees who left for a public sector job in the following year. The idea is based on Borjas (2002). In an administrative dataset comprising 50 per cent of the labour force in 1997–2008 the annual log wages of private sector workers were regressed on days worked, a dummy for 365 days in the same job, gender, age, a proxy of educational attainment and a dummy for those who left the private sector for a public sector job in year $t + 1$.

Figure 8.7 suggests that in 2002–05, when the public sector paid high wages, it could attract better workers, who were paid a positive residual wage in their private sector jobs. In other years (except in the election year of 1998) the private sector hired workers with negative residual wages. While further research is required to support this claim, the results warn that pushing the relative wages of public sector workers deep below the private sector mean is likely to have a negative impact on quality.

The U-shape of the wage path results from a technical error (the neglect of how private sector wages grow with tenure), but it is still difficult to repair. The earnings path is relatively easy to correct in good times by means of higher pay rises for younger workers and lower for older workers. In bad times, a rise in the relative wages of 30–40-year-olds can be financed only from savings on the salaries of the oldest and youngest workers. A crisis is clearly not the ideal time to start such a reform.
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5.2 Social Dialogue and Conflicts

Fidesz’s landslide victory in the 2010 elections (54 per cent of the votes) gave it a two-thirds majority in the parliament. In the wake of this, Prime Minister Viktor Orbán has often expressed the view that a government with such a super-majority evidently represents both employers and employees, making the existing bodies of social dialogue unnecessary.28

The most important social dialogue body, the Council for Interest Reconciliation (Érdekegyeztető Tanács, ÉT) was dissolved in May 2001, after almost 20 years, and replaced by the National Economic and Social Council (NGTT), a consultative body comprising representatives of chambers, unions, civil organizations, government-approved churches and delegates of the Academy of Sciences, the Rectors’ Conference and the Association of Hungarian Economists. The chambers and unions represented in ÉT bargained about the minimum wage, as well as the recommended benchmarks for average wage increases in the private sector. The

Note: 1998 and 2002 were election years bringing about changes in the governing party.

Source: Data from the National Pension Insurance Directorate (ONYF), authors’ calculation.

Figure 8.7 Relative wages of private sector workers leaving for the public sector versus the public–private wage gap, Hungary

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government was legally obliged to consider the outcome of their discussions. By contrast, the NGTT is intended to discuss a variety of yet undefined issues and the government is not obliged to observe the outcomes or consult about them. The NGTT has 32 members, in contrast to the ÉT’s 16, making a focused debate and compromise more difficult to achieve.

Workers’ representation has been weakened in other ways. Regulations imposing the compulsory establishment of work councils (Üzemi Tanács) were dropped from the new Labour Code in December 2011. The right to strike was curtailed by requiring prior agreement between employers and employees on ‘adequate services’.

Unlike in Greece, Italy, Spain, Portugal and Romania, the severe wage cuts and the threat of dismissals have not yet provoked massive protests in Hungary. As shown in Figure 8.8, the number of strikes fell from 16 in 2006 to eight in 2008–10 and the number of participants decreased from an average of 32,000 in 2006–08 to 3,200 in 2009–10. Demonstrations are part of the Budapest landscape but most of them concern political rather than economic issues. Noteworthy exceptions are a series of demonstrations held by the police, fire service personnel and professional soldiers protesting against reform of their early retirement schemes (2011) and a Fidesz-organized march against Hungary’s alleged ‘colonization’ by the EU and the IMF in January 2012.

**Figure 8.8  Strikes in Hungary, 1993–2010**

*Note:* The log scale compresses the range of fluctuations in strike participants. When reading the figure, 8 is the logarithm of 2,981, 11 is the logarithm of 59,874 and 12 is the logarithm of 162,755.

6. CONCLUSIONS

The short-run implications of the austerity measures for public sector workers are relatively easy to summarize: most have been able to retain their jobs until recently but they have lost 10 to 35 per cent of their earnings in real terms. Low-skilled, low-wage workers were hit hardest (as shown in Figure 8.2 and Table 8.6) but their high-skilled counterparts started from relatively lower wage levels compared to similar employees in the private sector (Figures 8.2, 8.6 and 8.7).

Reactions to these wage losses have been moderate, so far, given the scarcity of private sector job openings for the majority of public sector workers. Doctors are an important exception and it seems that their ‘revolts’ in several new EU countries mark the end of a long period of underpayment in health care. The near future will certainly bring massive layoffs in public administration and higher education but public education might also be affected. Downsizing is likely to affect the skilled labour force and will further adversely affect the position of women.

The long-term implications of the ongoing and planned reforms are more difficult to predict, given the patterns of policymaking in contemporary Hungary. The formal mandate of the government is strong, policymaking is strongly centralized and therefore unpredictable. (See Fukuyama 2010a and 2012b; Kornai 2012; on the nature of the contemporary Hungarian political system.) How the government’s entitlements will be used in the future is an open question and so is the readiness of the public to accept unnegotiated decisions.

Further uncertainties arise from the fact that some important proposals are in preparation (for example, in health care and public administration), while others are simply unprecedented in contemporary Europe. It would be hard to find research results, for example, on how a rapid shift to extreme centralization affects employment in public and higher education, or how shortening the duration of education and lowering the school leaving age are felt in the classroom and elsewhere.

NOTES

2. See detailed descriptions in www.kozszolga.hu. The amounts will be cut in 2012 according to government plans.
3. The tax system historically has encouraged firms to conclude business contracts (as opposed to employment contracts) for services provided by professionals employed elsewhere and for tasks beyond their employees’ standard workplace duties. However, the scope for arbitrage was substantially narrowed in the past few years.
4. See Kertesi and Köllő (2003) on the motives and aftermath of this decision.
5. The CSO’s establishment-base data are uninformative because of changes in the industrial classification. Therefore we use LFS data, which are less reliable and fail to distinguish civil servants and public employees from employees under the Labour Code. We use first quarter data because the last wave available for us is from 2011Q1.
7. See: eduline.hu/erettsegivelveteli/2012/1/20/itt_vannak_a_2012es_keretszamok_egyetemekre_7BORUX.
10. A relatively high incidence of low pay for skilled employees in the private sector is explained mainly by wage underreporting, as shown in Elek et al. (2012).
11. The number of physicians making preparations for working abroad is lower than the number of those considering emigration but exceeds the number of those who will actually leave the country.
13. See: mandiner.hu/cikk/20111229_rezidenszovetseg_megfontolando_ajanlatot_kapott_az_orvostarsadalom An exchange rate of 300 HUF/€ is applied.
21. Furthermore, despite the fact that Hungary has an all-encompassing, regular survey of student competencies, the data are not used for the evaluation of teachers and their colleges/universities.
22. The Act (Köznevelési Törvény) was adopted in December 2011.
23. To be more precise, local governments received quotas depending on the number of school-aged children, and were free to spend the state support for whatever purpose. However, most of them had to supplement the state quotas in order to keep their schools running.
24. A general pay rise of 50–70 per cent, without staff and working-time cuts, has also been promised verbally, but without saying where the resources would come from.
25. More than 60 per cent of the college and university graduates with a teacher’s diploma work in professions other than teaching, as shown in Varga (2005).
26. Note that the level and (partly) the dynamics of the public/private wage gap is different from that presented in Figure 8.2, for at least two reasons: first, the data used here relate to annual earnings affected by days in work during the year; second, the data comprise micro-firm employees and persons employed by sole proprietors.
27. Indeed, as demonstrated in Varga (2011), the ‘career model’ proposed by the Fidesz government for teachers will not change the shape of their age-wage profile and will not yield higher life-cycle incomes except for a predictably small number of ‘master teachers’ and ‘teacher-researchers’. With the survival of the U-shaped wage profile it
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is unlikely that the profession will be chosen by better students. The well-performing school systems usually do not spend more on teacher salaries than Hungary but several of them (including Finland, the Netherlands, Australia and New Zealand) substantially reduced the gap between starting and maximum salaries (Barber and Mourshed 2007).

29. This, in fact, is consistent with the classic theory of strikes which suggests that strike activity should be more intense in upswings than during downturns (Hicks 1966: 136–57).

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