



Hungary – where Thatcher and Keynes meet

Following up on its ambitious rhetorical pronouncements on the subject, the government has unveiled its National Labour Plan. It seeks to tackle a dramatic problem that stands in the way of Hungary's progress. A significant proportion of the plan is a review of the existing and anticipated economic situation, however, and the policies described mostly summarise already announced measures. What is obvious is that the government mostly banks on workfare to improve the employment statistics. Though it regards private sector employment as important, the plan offers few if any new thoughts on how to achieve this. Mostly the government counts on the measures reducing workers' rights to incentivise private enterprises to create jobs. Even if this works, it will end up making a lot of people unhappy. Fortunately the government is prepared for that eventuality, too.

Say what you will about the Orbán government's economic programme, one aspect would be difficult to deny: it is certainly unorthodox. On the one hand, Fidesz has wholeheartedly embraced the supply-side mantra of tax cuts for the wealthy. At the same time, it is determined to set in motion the greatest workfare programme since the demise of state socialism.

While Deputy Prime Minister Tibor Navracsics was busy telling the readers of the conservative British *The Daily Telegraph* that the government would create 300,000 private sector jobs by 2014, the Ministry of National Resources in turn was getting ready to unveil its plan for the labour market, which suggests that in fact a large chunk of the promised jobs will be created within the framework of workfare programmes. Even considering that some of the publicly funded jobs will be based at private enterprises, Navracsics's statement was ostensibly at odds with the government's pronouncement about its plan for employment.

Now that the detailed plan, the National Labour Plan (NLP), has been released, we can take a closer look at what the readers of the *Telegraph* had to miss out on.

Employment tragedy

Hungary's employment problem is not for the faint-hearted. We noted just last week how Hungary ranks second-to-last in the EU in terms of employment. Though the country has roughly the same population as Portugal and the Czech Republic, total employment in the latter nations is about 1.5 and 1.4 million higher, respectively. In terms of total productivity and the distribution of labour and social burdens, this difference is truly staggering.

Much of this problem is the legacy of socialism, which kept uncompetitive heavy industry on life support. When the post-transitions government allowed for creative destruction to take its course - a key failure, proponents of a more gradual transition argue - whole swathes of the country were suddenly drowning in out of work persons without any prospect of finding a job. Many of these left the labour market in bitterness, with the help of friendly doctors who declared that they qualify for disability pensions. Now the government wants to pull many of these retired persons back into the labour market. But into what, one may ask looking at the dearth of demand for low-skilled labour.

The centre of the vexing employment problem is the northeast of the country, where investments are scarce and where as of now there is not much to invest in. Reclassifying people as unemployed rather than disabled will do little else than to cut their benefits and spread bitterness.

The plan

The National Labour Plan is mostly an analysis of the current labour situation in Hungary and of potentially relevant European practices. This extends to a projection of the anticipated trends in employment and a summary of measures the government has introduced or plans to introduce regarding employment policies. Based on current trends and anticipated GDP growth, the government charts three possible scenarios in employment: basic, average, and normative. The basic, most pessimistic, trend would lead to job growth below the level promised by the government.

Whichever projection pans out, a very significant proportion of these jobs will be created by the government, either by directly financing a job or by legalising existing grey market jobs. Improving the latter was the dream of every government, but no breakthrough has been achieved thus far and there is no indication that Fidesz has found the magic bullet for achieving what its predecessors had failed to realise.

Which means that workfare will be the source of most new jobs, and its responsibility is vast: according to the government's projections, over the next year 80% of new jobs will be created by the workfare/legalisation segment of the job creation programme, and only by 2015 will this ratio decline to 50%.

How is gonna pay, and how are they gonna do it?

Even with the programme, the ambitious plan begs the question of financing. Paying the workers won't involve additional costs, since they will be working to earn the benefits they'd be receiving anyway. Still, workfare doesn't come cheap, even if labour happens to be free. Organising the projects, paying for the necessary tools and products needed, transportation, sometimes meals and housing (the latter apply by law if the designated workfare programme is far from the residence of the beneficiary) - all these can come with massive price tags. Moreover, some workfare projects, notably construction, require the hiring of highly skilled experts in addition to the semi- or unskilled labourers that generally characterise such projects. If these are hired from the private labour market, then that's another significant expense.

The government will likely save a lot of money from the drastic reduction in the time that the unemployed are eligible for unemployment benefits (rather than welfare, which is generally less). But unless the vast majority of the promised jobs will indeed be either generated by private enterprises or at least taken over by them, the government will have to reach deep into its pocket to finance the employment of hundreds of thousands of citizens who lack the skills for highly productive labour. That would be a model for reliably making everyone unhappy, starting with the workers all the way to the exchequer.

Not wholly outlandish conspiracy theories suggest that retired police officers are forced back into the labour market to oversee the masses engaged in such projects. Orbán himself has admitted that the police would have more to do to quell the unrest caused by the government's series of harsh measures - assuming optimistically that retired police forced to work again won't be part of the unrest.

High price for dubious success

It's good to know that the government is prepared, for a major part of the programme are harsh measures limiting the rights of workers and weakening their position vis-à-vis employers. Thus collective bargaining rights will be significantly weakened, vacations will decrease and employers will be given greater rights to circumscribe their timing, minimum mandatory working time will grow and employers will have greater latitude in mandating unorthodox working hours, employees accountability for damages caused at work will be increased, etc.

All things being equal, this should make it more attractive to hire people. The government's pronounced intention is to separate social considerations and social policy from employment policy, to ensure the more efficient realisation of employment policy goals, not unduly hobbled by all the touchy-feely stuff. That may work in many cases, but by itself it won't help in areas without employers that could possibly expand or wanting for investors who might want to create jobs. As for the most troubled region, the northeast, these are mostly absent.

This problem also limits the promise of several of the other measures mentioned in the programme, such as making part-time employment easier and subsidising employers that offer jobs to the unemployed – both necessary and smart moves.

While the programme is right in emphasising that Hungarian labour must become more competitive in international comparison, it myopically conflates competitiveness with decreasing workers' rights. Training and other, more win-win, type of solutions are all enumerated in the programme, but are clearly far less thought-out than the restrictive measures. In all, the programme falls far short of making clear how the government plans to create a million *tax-paying* jobs. And the jobs it will create in turn likely won't be as much of an improvement over the present disastrous situation as the government suggests.