

**CIVIL COUNTRY REPORT**  
**or a view from below**

Submitted for debate  
by the six Confederations  
at their meeting on May 22-23, 2000  
in Mátraháza

## I.

Simultaneously with the transformation of the country's political and economic system, the great majority of the Hungarian society made a commitment to modernisation, catching up with developed countries and joining the European Union.

Our country has covered a lot of ground in order to realise its determination. Democratic and free elections were held on three occasions, the governments elected served their terms of office. During a period of time hardly perceivable historically epoch-making changes have taken place.

Institutions of market economy have been established and are functioning. Privatisation is practically completed, state ownership has been replaced by private property. In addition to the role played by multinational and domestic capital, hundreds of thousands of small and medium-sized enterprises have come into existence. Production, commerce, business relations have been placed on new foundations; the company law and the bankruptcy law provide adequate regulation; institutions of market surveillance are functioning. The bank system has also been privatised, and after several consolidations it fulfils its function.

Financial stabilisation of the Hungarian economy has been completed, the country has started out on the road of sustainable growth, with macro-economic indicators continuing to improve.

Unprejudiced Hungarian and international analysts invariably note that the transition demanding enormous sacrifices from the majority of the society has taken place without major social conflicts, in surprisingly peaceful circumstances. In this, in addition to the willingness of those living on wages or salaries or pensions to make those sacrifices, the reasonable and constructive attitude of the organisations representing their interests – the trade unions – has also played a part.

**The 1999 Report from the Commission, which says – regardless of some critical remarks – that Hungary fulfils the Copenhagen criteria and its economy should be able to withstand competitive pressure within the European Union, is fully acceptable.**

**At the same time it is conspicuous that Hungarian wages, incomes, social benefits, the conditions and safety of employment and social dialogue are lagging far behind EU standards, moreover, they fall short of the possibilities inherent in economic growth. This contradiction is no longer acceptable and it is to be feared that it will hinder further economic development.**

It is this fact that encouraged us, adopting the practice of the European Commission of preparing regular reports, to draw up a special country report. This report naturally builds upon earlier assessments: accepting and relying on their findings we wish to highlight the points having the greatest importance for us. We do not aim at

completeness, and we could hardly do so because of the shortage of information we receive. **We have decided to shed more light on the social dimension. We feel this area is not given sufficient emphasis in the course of the preparation for accession, although the greatest shortfalls are to be found here.**

We intend to compare the opinion of highly qualified and experienced experts to the view of the situation of the country as seen by the part of the society that is generally is referred to as workers or employees, but that we prefer to define as **those having no profit-yielding property**. They make up the greater part of the society, the majority of whom were and still are the losers of transition, though without their performance the economy could hardly have attained its current favourable position.

The now developing closer co-operation between the various trade union confederations is linked to the most important goal of interest protection in the near future, the idea of "Together to social Europe". That is why we are comparing the current practice with EU standards.

We are going to link what we have to say to the most important issues and tasks of the future.

### **1. What is the fundamental interest of Hungarian workers, Hungarian citizens living under average circumstances?**

Workers expect that accession to the European Union will bring about the assertion of their interests, an improvement of their quality of life; so they show interest in accession primarily from this angle. They expect approximation of their living standards, their social security and social benefits to those in the targeted countries of the European Union. To put it more simply: all that can be measured by whether

- they will have greater employment security;
- they will be paid performance-proportionate wages of higher purchasing power;
- there will be a predictable pension system in place guaranteeing peaceful retirement age;
- everybody will have equal opportunity for maintaining their health and in case of illness for decent medical treatment and recuperation;
- there will be social policy in place providing genuine help for those in need without offending human dignity;
- there will be labour legislation in place providing greater security and protection for workers;
- there will be genuine social dialogue, efforts at consensus, real agreements and more collective agreements;
- workers and pensioners will be first-rate citizens, whether their exclusion and suppression will cease.

## **2. How can the experience of the accession process so far be judged on the basis of fundamental employees' interests?**

On the whole the country is judged favourably, its recognition is growing, its preparation for accession is progressing at a good pace. The greater part of the society do not know about the details of preparation, the expectable impacts of accession, and they are not satisfied with the present. They do not feel that what is taking place is for the benefit of all of us, and cannot directly perceive their interests being taken into account and asserted.

It is a generally accepted view within the society that the position of the losers of the transition is not actually improving despite the economic growth in recent years, and for the majority, individual gains are not growing in proportion to the increase of the distributable wealth produced by them. We do not dispute that without a stable political system and an efficient economy there is no social progress, and vice versa. It is impossible to build a modern society with masses of impoverished, marginalised people falling behind.

The situation is aggravated by the fact that social dialogue has reached nadir; the social partners – employers and trade unions – and civil organisations are denied the possibility of taking part in decisions on issues decisive of the future. That is why the greater part of the population, and the trade unions and civil organisations representing them, feel excluded and rightly believe that governmental and parliamentary decisions are taken over their heads, without consulting them, moreover, against their will. There are no institutional linkages to the preparation of decisions, thus even measures having favourable effects are occasionally taken with reservations and animosity.

## II.

After these introductory thoughts, we are going to have an overview of the areas where tensions are the greatest, where there is need for changes and the conditions for them are given.

### 1. Employment

Reaching its lowest ebb in the early 1990s, decrease of employment gradually slowed down, then from 1997, as an effect of economic growth, it has slightly increased. The unemployment rate has declined, it is currently 8.8%, but the number of the employed has increased almost only because of the new method of statistical record; the number of jobs has remained practically the same. Over half of the jobless are long-term unemployed, their return to the world of work is increasingly hopeless; the proportion of youth unemployment continues to be high. Employment has undergone enormous structural changes, there has been a huge increase in the demand for skilled labour.

The tensions of the Hungarian social welfare system are largely rooted in the unreasonably low employment level. 52.9% of the working age population are employed, compared to the 85% prior to the change of regime or to the EU average of over 60%. This low activity rate results in an extremely bad wage-earner/dependant ratio and a low level of family incomes. The system of social insurance and the social policy of the state were based on the activity rate of 80% ten years ago and the nearly 100% capacity to bear the burden of taxes and rates. Now, in addition to an activity rate of 52.9%, the reluctance to pay taxes and contributions and the difficulty of collecting them present another problem to deal with.

The extremely unfavourable overall employment indicator of the country is combined with some structural problems that are almost unbearably detrimental to certain groups of the society.

In relation to generations, employment of older people is conspicuously low. The employment level of women over 40 and men over 50 is half of the EU average. Their being discriminated on the labour market implies that they are unnecessary for the society and if they lose their jobs, they won't have a chances of a fresh start. In the course of economic restructuring masses of people have fled to early retirement.

The number of jobless school-leavers is hardly decreasing. Young people have to cope also with the psychological burden that though the society provides opportunities to acquire knowledge and to learn a trade, they are not in accordance with the needs of the labour market. The knowledge and energy of tens of thousands of young people is not needed by the society.

In relation of regions, the eastern half and the south-western part of the country are definitely falling behind the Central Transdanubia and the capital. In the threatened areas now we have to reckon with all the detrimental social impacts of long-term unemployment.

There is good reason to raise the question: why has there been no significant change in employment following financial and economic stabilisation and at an annual growth rate of about 5%?

The answer is simple, but unacceptable. The governments so far, including the present one, have had no employment-oriented economic policy or a central programme for creating jobs.

It is an imperative that the government, negotiating with representatives of various interests, should develop a national employment programme and underpin it with concrete measures. In a period of sustainable growth, it is justified to expect a 10% increase of employment over the next period up to 2004, which would mean 350-400 thousand new jobs. With that Hungary would close up to the current level of the EU countries. And by 2010, the goal that everyone seeking a job should find one will have to become realistic.

It is essential that a model complex development programme be prepared in order to help disadvantaged regions bridge the gap. It requires the government's taking an active part in infrastructural investments (e.g., in motorway construction), as well as introducing activities that will have a boosting effect on the whole region supported by tax, credit and interest allowances. It is necessary to strengthen small and medium-sized enterprises and involve them as subcontractors in regional development. Such a programme should integrate central and local plans and to facilitate joining forces adjusting training and retraining to economic needs. It should also outline concrete tasks of resolving minority problems in the given crisis region, for instance, promoting overall improvement of the situation of the Roma. Further on such a model programme could serve as an example of an applicable action plan for other regions.

### **Conclusions, tasks**

- ◆ Creating 350-400 thousand new jobs by 2004.
- ◆ Attaining full employment by 2010, i.e. everyone seeking a job should find one.
- ◆ Guaranteeing increased legal protection to women over 40 and men over 50.
- ◆ Developing regional programmes with a view to helping crisis regions close up.

## 2. Wages and earned incomes

Among the diverse economic trends of the last ten years we can observe a phenomenon typical not only of Hungary: a continuous depreciation of work in general, and that of wages and earned incomes.

It is most conspicuous that whatever statistics we resort to, two factors remain identical:

- improvement of economic performance is not proportionately followed by wages and earned incomes, ergo there is redistribution in favour of capital and the budget;
- disproportion of earned incomes is growing, and while the incomes of those directly serving the interests of owners are rapidly increasing, the situation of those with low incomes is getting more and more insupportable. The 10% of the population in the lowest income bracket have only one tenth of the income of the 10% in the topmost one. The difference between individual earnings may be a hundredfold.

Taxes and contributions influencing the purchasing power of wages are high. Consequently, it is not the low net wages but the expenditure on wages that constitutes an additional burden for enterprises. The promised reduction of taxes has failed to take place, on the contrary, the personal income tax burden has grown.

In the sphere of competition, real wage growth has been falling short of steadily increasing productivity. The dispersion behind averages is greater than justified, so masses of employees are struggling with everyday bread-and-butter worries while a part of entrepreneurs are obtaining considerable extra-profit. The purchasing power of wages is also influenced by the lack of compensation in wages for eliminated benefits provided by the state or the workplace.

The overall low wage level is an impediment hindering the accession process as well. The free movement of labour – as one of the four freedoms – is unlikely to be asserted immediately from the date of accession.

The other problem is wage disparities that are particularly alarming in four areas:

- exceedingly high wages in certain sectors, very low ones in others;
- wage differences between manual and non-manual work;
- differences in remuneration for men and women, and
- the unreasonably great difference between the topmost and lowest income brackets.

Because of the above, Article 4 of the European Social Charter: all workers have the right to a fair remuneration sufficient for a decent standard of living for themselves and their families, has not come true in our country in spite of its economic development.

Minimum wage is also a cardinal issue of Hungarian wage and income policy.

The minimum wage has been suffering relative devaluation over years, currently its net value does not reach 37% of the net average wage, and it falls considerably short of subsistence minimum.

A starting point of approximation of wages and incomes could be a programme for minimum wage increase adjusted to taxes and contributions, entailing the lessening of employers' burden and taking also aspects of employment into account.

A considerable increase of minimum wage is feasible only within the framework of a comprehensive wage approximation programme. Its starting point should be a performance-oriented increase of real wages covering all the sectors of the national economy, and also that a greater part – at least two-thirds – of the macroeconomic gains should be used for raising real wages to an extent exceeding the EU average. In our view the onus lies upon the state to ensure that the desired real wage level should be attained with the smallest possible increase of nominal wages and wage costs (lowest possible inflation rate, decreasing personal income tax, preferential treatment for those in the lowest income bracket).

### **Conclusions, tasks**

- ◆ It is necessary to implement a several years' wage increase programme facilitating that the increase of real wages should approximate and follow the development of performance indicators. Under current circumstances it would require at least an annual real wage growth of 4-4.5%.
- ◆ Wage relations should be proportioned to performance.
- ◆ Income differences should be levelled by raising low wages, primarily by increasing minimum wage to a large extent. Changes in taxation and contributions are to be subordinated to this purpose. The net value of minimum wage should reach 60% of the average net wage.

### **3. Social security**

The changes in the last years have brought about uncertainty and unpredictability in the functioning of the social insurance systems. The health sector is characterised by substitutes instead of real reforms. Social control over the institutions of social security has ceased; their functioning is lacking transparency.

Deviations from the new pension law adopted in 1997 – based on social consensus – are frequent. In 1999, pensions were raised to a lesser extent than provided by the law, thus depriving pensioners of more than 50 billion forints. The contribution of the funded pension pillar is also less than required by the law. This year even the method of pension calculation has become questionable, and the government has raised the

question of doing away with the early retirement scheme. The prospect of security in old age has been impaired at several points. The European Commission is right when stating that recent decisions have called into question the government's commitment to pension reform.

As regards health insurance, services are underfinanced, the share of costs to be paid by the population for medical care and medicines is steadily increasing. Health care institutions are struggling with serious shortages of resources, in some cases even their operational capacity is threatened.

Disease prevention is of low standard, in which overall social tensions also have a part. The chance of having access to high quality medical treatment and care keeps worsening. Demographic trends forecast a growing demand for health services. The shift towards market philosophy is increasing the burden to be borne by the population, in particular by those in the greatest need.

It is an increasingly pressing necessity to establish an independent branch of accident insurance as well as to reregulate the early retirement scheme and adjust it to the current work structure.

### **Conclusions, tasks**

- ◆ The stability and predictability of the pension system is a priority objective.
- ◆ Pensioners are entitled to overall compensation for their grievances over the past years. They should be given the pension increase unrealised in 1999, i.e. the 50 billion forints.
- ◆ A thirteenth month's pension should be introduced, and average pension should be approximated to 66% of average earnings.
- ◆ Overall health reform can no longer be postponed, it should be carried out while maintaining the predominance of public financing, preventing a further drastic increase of the population's burden and guaranteeing equal access to medical treatment.
- ◆ Article 12 of the European Social Charter is to be ratified as a basis for achieving that social insurance provisions meet EU criteria.
- ◆ Separate accident insurance is to be established; early retirement is to be reregulated.
- ◆ Control by contribution-payers is to be established in all areas of social security.

#### **4. Health and safety at work**

Due to economic restructuring, the number of enterprises (employers) in Hungary has increased by two orders of magnitude over the past ten years. A good many companies, both Hungarian and multinational, have introduced European work culture, high technology, new-type labour safety. On the other hand, technology, equipment or machinery banned in Europe have occasionally been relocated in Hungary.

During this time, the state has almost entirely neglected labour safety and occupational health. The scale of values of employees and employers has become disrupted, it is not safe working conditions but keeping jobs and obtaining the highest possible wages that has been given priority. The resulting offences committed against the law have finally led to some employers' exploiting human resources to extremes.

The greatest problem is that no investments have been made in labour safety, equipment is out of date, technologies are obsolete and personal protective devices are lacking. Deficiencies of labour safety are unmonitored, particularly in the "hidden" economy.

Legal provisions on labour safety are partially harmonising with EU regulations. It is to be hoped that alignment will have been completed by 2002. Most ILO Conventions related to labour safety have been ratified.

Nonetheless full implementation of the guidelines on health and safety at work require investments. It is important that, beyond getting acquainted with the criteria and rules related to accession, there should be easily intelligible publications on labour safety widely distributed in order to facilitate knowing one's way around the various rules of law and standardisation. The process of translating standards into Hungarian should be accelerated.

A comprehensive survey should be made on the conditions of workplaces at economic associations and private entrepreneurs to obtain a realistic picture of current circumstances in Hungary. Only in this knowledge can we judge what financial and moral burden accession to the EU will entail for employers, and naturally for employees too.

Institutions overseeing the implementation of legal provisions on labour safety will have to be strengthened in the way required by the Union. Inspections of health and safety at work should be made more frequent.

#### **Conclusions, tasks**

- ◆ Full alignment with relevant EU law and ILO Conventions.
- ◆ Changing of employers' and employees' attitude to ensure priority for European work culture, health and safety, environment protection and human resources.

- ◆ Effectively functioning information database; research, education, training (language) and retraining on a new basis; thorough supervision (coercive measures); strengthened partnership of employers and employees based on their coinciding interests.
- ◆ Institutions of labour inspection need to be strengthened. Punitive sanctions should have deterrent force.

## 5. Social provisions

Following the change of regime, the social situation of the population has been characterised by a radical increase of the number of those living below subsistence level, massive impoverishment of the middle classes and the enrichment of a narrow layer. Today the situation of families is basically determined by their members having jobs or not, their income conditions, the number of children and their housing conditions.

There is an increasing number of people who do not know how to keep body and soul together. Employment difficulties, high differences of incomes and other social problems are forcing more and more families to base their lives on social assistance. The pattern of behaviour manifested in more and more members of the society seeking to obtain various benefits and aids is unsustainable.

In view of social security, three areas have great significance:

- Changes in the unemployment benefit system reducing the period of payment and toughening the criteria of eligibility has affected 250-300 thousand persons unfavourably. The spirit of the new regulation implies that recipients have become jobless though their own fault, so they must be punished, they may be forced to public works in return for benefits.
- All measures in the area of family assistance have benefited the better-off social layers. While family allowance has been made available by personal right (to the advantage of 6-8%), in two years it has lost 20% of its real value. Assistance provided for families through tax allowances is not available, due to their low wages, for a great number of people, not to mention the unemployed and other inactive groups. The introduction of earnings-related child-care benefit does not benefit those with incomes below the average.
- The benefits provided by the housing assistance system available for all have remained unchanged since 1994, and the government is planning to impose restrictions on its certain elements. The newly introduced preferential loan is unavailable for the greater part of the society because of their low income level. Public housing programmes have completely ceased. It is getting increasingly hopeless for young people to become homeowners, as social assistance provided by workplaces has also dwindled away.

Consequently, in order to improve the social situation of the population and to combat poverty it is essential to strengthen the middle classes, to provide jobs and decent wages sufficient to maintain a standard of living deserved by working people, and effective but not humiliating social protection for those in temporary need.

### **Conclusions, tasks**

- ◆ The unemployment benefit system – period of payment, eligibility criteria – should be reviewed.
- ◆ In the area of family assistance, to have the principle of “Equality for all children” asserted it is necessary to strengthen means-tested elements and to guarantee the stability of value of the family allowance.
- ◆ Institutions and instruments of protection of children and young persons need to be strengthened. Genuinely equal opportunity in education!
- ◆ It stands to reason to launch a comprehensive public housing programme. The housing assistance system is to be modified to make benefits available also for an average family.

## **6. Labour legislation**

Laws and regulations concerning the world of work, though they basically measure up to those of the EU, have been amended explicitly to the detriment of employees over the past years. Instead of being reduced positional differences between employers and employees have been increased. Conditions of the functioning of trade unions have also worsened.

- Giving notice has been made possible during periods of incapacity.
- Consequences of illegal termination of employment by the employee has been rendered more severe.
- Regulation of the responsibility for shortfalls against inventory has become much more disadvantageous to employees.
- Mandatory mediation in labour disputes has been abrogated.
- It has been allowed to terminate employment of employees entitled to pension without giving reasons, and the notion of pension has been extended (to cover early retirement pension, disability pension, pre-pension).
- Rules of paying wages to trade union representatives for the cuts in their working time have been withdrawn.
- Trade unions have been deprived of their exclusive right to enter into collective agreements.

In accordance with EU criteria, in the near future steps need to be taken in legal regulation of mass lay-off, the Wage Guarantee Fund, work outside the location of permanent employment, and health and safety at work for the temporarily employed.

### **Conclusions, tasks**

- ◆ There is need for a comprehensive review of the Labour Code. It is necessary to lessen the defencelessness of employees and to improve their position. Employment must be established by a labour contract, and the employee must be given the protection provided by the Labour Code.
- ◆ The functioning of trade unions, works councils and public employees' councils as well as the system, forums and operation principles of interest conciliation must be regulated by law.
- ◆ We urge for more effective action on the part of the state and the government to enforce compliance with legal regulations.

## **7. Social dialogue, collective agreements**

As regards social dialogue, relations of the social partners and the government – tripartism – we have gained experience recognised also internationally. The Council for Interest Conciliation and its committees, as well as the Interest Conciliation Council of Publicly Financed Institutions [KIÉT] carried on acknowledged and successful activities in the process of socio-economic transition, in the preparation of national decisions and in conflict management. Interest conciliation at national level had an important part in issues related to the annual budget, changes in taxation and contributions, in the adoption of annual wage recommendations and minimum wage agreements, which had a favourable impact on wage bargaining at local and sectoral level.

In the wake of the changes since 1998 social dialogue has become empty and reached the lowest point. The functions of the earlier Council for Interest Conciliation have been taken over by forums separated from one another, the functioning of which is formally ensured, but which are rather designed for hearing information and opinions, not for reaching consensus or concluding agreements. The new forums of social dialogue have been degraded to simple consultations. The institutional possibility of carrying on negotiations on taxation and contribution issues affecting the purchasing power of wages has ceased to exist. The government appears to have no real intention to reach agreement, it has not accepted a single proposal from the social partners, what is more, it pushed through the amendments to the fundamental law on the world of work against their will. Without entering into negotiations it steadily avoids the implementation of earlier agreements. There is no wage recommendation for 2000 subscribed also by the

government. Excluding the social partners from issues decisive of the country's future, holding them off the accession negotiations entail serious damages. There is no institutional dialogue with pensioners' or other civil organisations either. The lack of dialogue at national level gives rise to conflicts and often influences industrial relations at sectoral and workplace levels as well. What would be necessary is just the contrary.

The Hungarian government does not comply with Article 6 (2) of the European Social Charter which says that governments should promote machinery for voluntary negotiations between employers or employers' organisations and workers' organisations, with a view to the regulation of terms and conditions of employment by means of collective agreements.

Thus today collective agreements fulfil their function only partially. At present, somewhat more than 50% of workers are covered by collective agreements, most of which have been concluded at workplace level, and a smaller part at sub-sectoral or sectoral level. The contents of collective agreements have shrunk in the recent years, hardly exceeding the compulsory terms guaranteed by the Labour Code. There are only two examples of their being extended. There is hardly any governmental incentive to encourage the conclusion of collective agreements; balanced industrial relations carry considerably less weight than they should when granting supports from public funds or evaluating applications.

Another cause of the small number of legally binding sectoral agreements is the fragmented structure of interest representation, the lack of authority of employers' organisations.

### **Conclusions, tasks**

- ◆ The government has to resume meaningful social dialogue, genuine conciliation of interests, negotiations resulting in agreements.
- ◆ European institutions must be asked to set requirements more consistently on compliance with social dialogue norms prevailing in EU countries.
- ◆ Extension of the orbit of collective agreements and enrichment of their contents should be promoted also by means of legal statutes and state incentives.

### III.

**Thus the most important goals of trade unions in the coming period of time, in other words in the course of preparation for accession to the European Union, are the following:**

- ◆ Everyone who wants to work must be offered an opportunity of decent employment! **Full employment** should be attained together with job security in each region of the country.
- ◆ Wages should be raised to a level where the income earned by honest work will provide a fair livelihood for workers and their families. Accession should open up the prospect of the **approximation of wages to Union level** in the foreseeable future.
- ◆ Protection of employees should be strengthened in respect of both their working conditions and labour law. All employees should be working under **safe and healthy working conditions** in **protected employment** regulated by law and collective agreements.
- ◆ **Pension** deserved by lifelong work should be calculable and ensure **decent livelihood**, its size should reflect the number of years spent working.
- ◆ Citizens must be ensured **equal opportunity for maintaining health or restoration to health**.
- ◆ In the course of the accession process, **approximation of social welfare areas to the level of EU countries** should be given an emphasis equal to that placed on economic criteria.
- ◆ Hungarian economy, **Hungarian employees** are only interested in accession that ensures the assertion of their interests and their **equality** to employees in EU countries **in regard** not only **of** their obligations but also **their rights!**