

Relationships between public employment and regional development

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Abstract

The extensive economic literature deals with the role of the state it plays in the area of employment and revitalising demand in order to treat economic crisis; it also includes the probable benefits and drawbacks of the measures.

Hungary's employment policy has transformed following the collapse of the state-socialism, however, although the economic policy was on the way of liberalisation, the increased presence of the state was necessary in treating employment problems because of the severe consequences of the economic transformation. Various forms of community employment were developed. Public employment deeply penetrated into the labour market especially in the underdeveloped regions. The study aims to take a closer look at the evolution of the weight of public employment in the labour market of Hungarian regions. Furthermore, it analyses the two-way relationship between regional development and public employment. In other words, we examine, on the basis of Hungarian (especially North Hungarian) examples, whether regional underdevelopment brings about greater public employment, or alternatively, whether greater public employment may contribute to the diminishing of the drawbacks of the underdeveloped regions.

According to our hypothesis, the economic revitalizing effects cannot be experienced and only temporary results can be achieved in the social area because of the dominance of the social nature of public employment in the underdeveloped regions and the short-term focus in treating social crisis. At the same time, public employment, in more developed regions, has a greater ability in fostering reintegration in the labour market and in improving economic conditions. We also examine the opportunities of reorganizing public employment in the most underdeveloped regions and the reinforcement of the alternatives pointing towards social economy.

Key words: regional development, public employment

JEL Classification: J21 – Labor force and employment, size, and structure; R23 - Regional labor markets, population

1. The problem: Increasing regional differences in Hungary

Hungary split into two or rather three parts during the 20 years after the change of regime. The regional development level of the regions left of the Danube lag far behind the central and Trans-Danubian regions. It is demonstrated by the economic performance and unemployment trends. The regional differences greatly increased among counties, regions and the various types of settlements in the years following the change of regime in Hungary. (Nemes Nagy J. 2008, Nagy G. 2006)

The lag-behind of the North Hungarian and Northern Great Plain regions is growing in an accelerating pace in spite of the regional development efforts. The split of the country into three parts has deepened in the year 2000. The North Hungarian and the Northern Great Plain regions lag far behind Central Hungary and Transdanubia in terms of the basis of the personal income tax per capita, indicating economic performance, and the number of registered job-seekers (Figures 1 and 2), indicating the difficulties of living.

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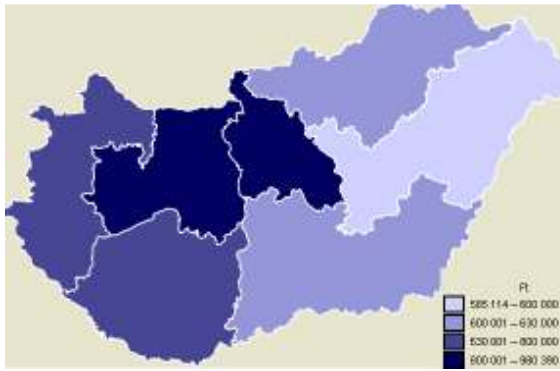


Figure 1: Income tax basis per capita (2007)
 Source: Regional Statistics 2007

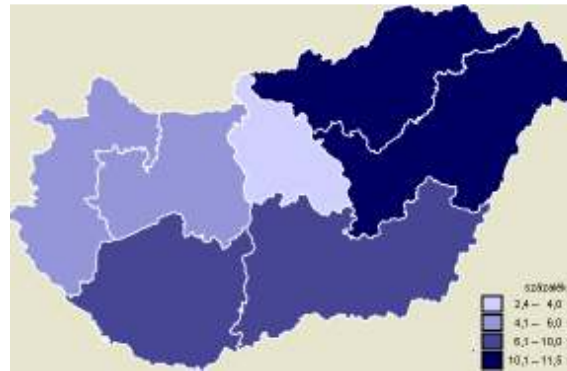


Figure 2: Rate of registered job-seekers (2007)
 Source: Regional Statistics 2007

The trend of the GDP per capita well demonstrates that the differences among Hungarian regions are getting stronger and the gap is widening between 1995 and 2007.

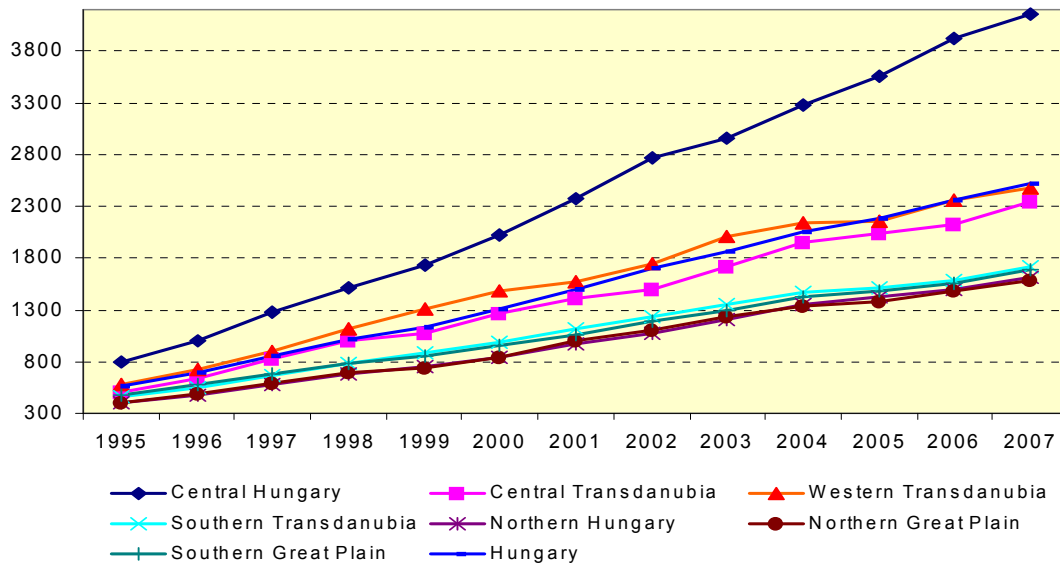


Figure 3: GDP per capita (thousand forints)
 Source: Own compilation on the basis of Hungarian Statistical Office Data

The reason behind both low economic performance and high unemployment rates is the lack of viable businesses. Typically heavy industry and mining enterprises operated in the North Hungarian region before the change of regime. Mid and small works did not exist. An economic hiatus arose with the collapse of large enterprises that has not been managed to be filled in. The density of enterprises lags far behind the national average.

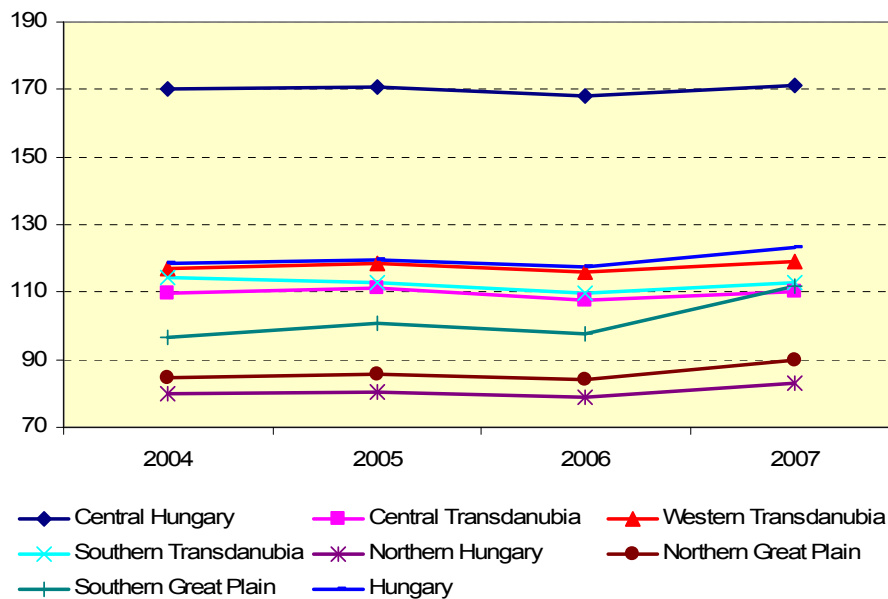


Figure 4: Registered corporations and unincorporated enterprises (per 1000 inhabitants)
 Source: Own compilation on the basis of Hungarian Statistical Office Data

2. Starting point of treating the problem

2.1. Exploring the roots: Factors of the regional appearance of enterprises

The lack of the enterprises in the North Hungarian region is mainly explained by the lack of demand, underdevelopment of instruments and the lack of initiative. The demand does not reach the critical mass necessary for the increase of the number of enterprises partly because of the narrowing export opportunities due to the collapse of the “socialist” markets and the underdevelopment of instruments that led to weak competitiveness, and partly because of the high unemployment and the influx of import merchandises into the internal markets.

Instruments that are important from the point of view of competitiveness are underdeveloped. Thus, those motivated to start business have to cope with obsolete technology, unskilled labour force, lack of capital and loan, as well as lack of trust that makes the creation of social capital and its economic revitalisation effect impossible.

Entrepreneurial initiatives are hindered by further factors stemming from post-socialism that are stronger here than in the rest of the regions. In state-socialism becoming an employee of a state-owned large company meant a successful strategy for subsistence. Entrepreneurship was not included among patterns of socialisation. Entrepreneurial attitude is unknown for the majority of the population. They do not possess financial resources to risk, they have no experiences, therefore they do not dare to start business. The necessary self-confidence is also missing. Only a few people are ready to sharply change attitude and lifestyle.

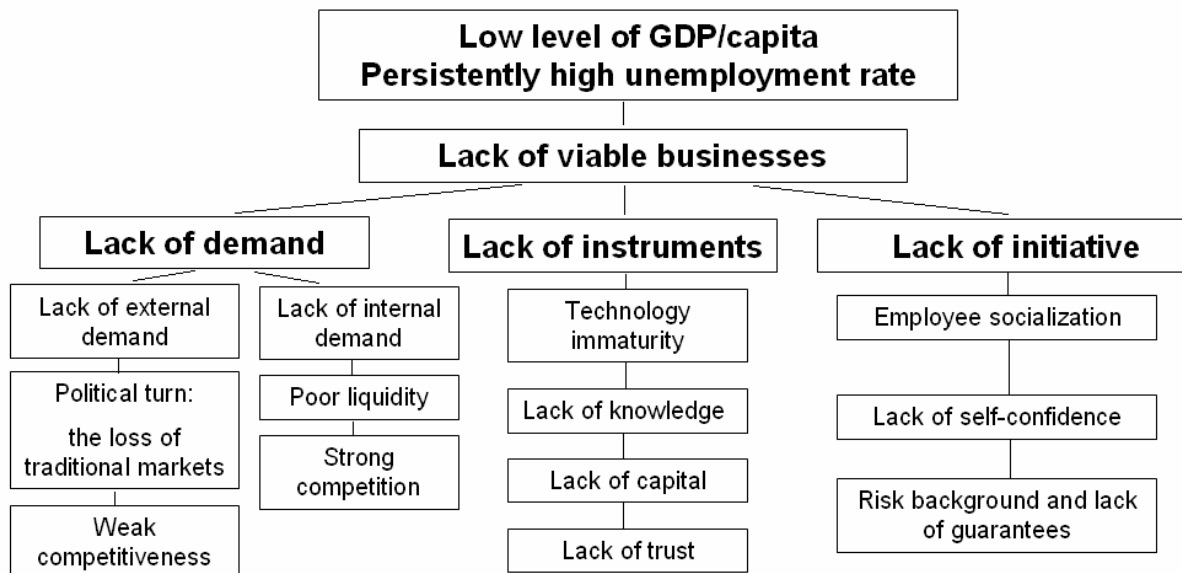


Figure 5: Problem tree of the North Hungarian region

Source: Own compilation

The public and non-profit sector tries to counterbalance the lack of businesses striving to generate profit. The higher proportion of non-profit economic organisations is especially outstanding in the northern small-village part of the region. In 2008 there were 9.326 non-profit businesses in the North Hungarian region, while 8020 in Western Transdanubia and 8.200 in Central Transdanubia.

The number of non-profit businesses per 1000 inhabitants operating in the North Hungarian region shows a regional picture having opposite direction to the profit-oriented businesses at micro-regional level as well. The proportion of the non-profit organisations is relatively the highest in the most underdeveloped micro-regions. (In the Edelény micro-region there are 7 and in the Encs micro-region there are 10 non profit organisation per 1.000 inhabitants.) (Figures 6 and 7) (This inverted relationship is not typical in the more developed regions.)

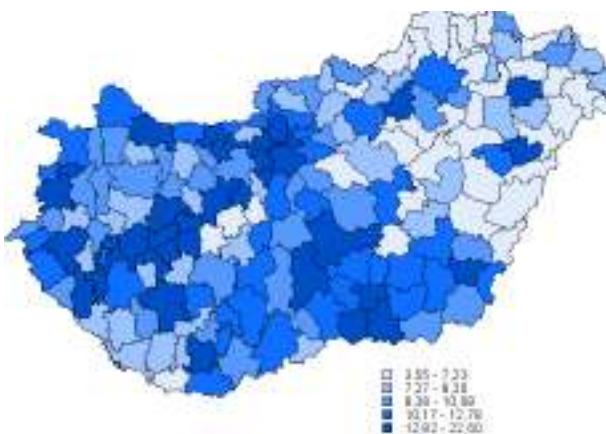


Figure 6: Registered economic organisations (per 100 inhabitants, 2007)

Source: MTA Erőforrástérkép

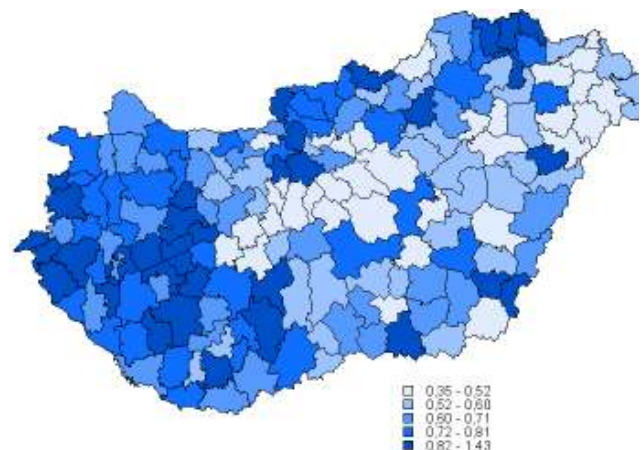


Figure 7: Operating non-profit organisations (per 100 inhabitants, 2007)

Source: MTA Erőforrástérkép

2.2. Theoretical frameworks: Recommendations of the economic theories

Typically, economic theories offer three ways of intervention.

- (1) According to Adam Smith the wealth of a society depends on two factors: the proportion of the population dealing with production work and the productivity of work that is determined by the division of labour. He sought and found relationship between the change in the number of population and the size of wage. In his work “The Wealth of Nations” he suggests that the labour embodied in the merchandise is not the only precise measure of value in the capitalist economy, it is rather the quantity of labour the merchandise possesses. He puts it in this way: “In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects, seems to be the only circumstance which can afford”³. That is, according to Smith, *enhancing the rate of employment and the productivity of work can be solution* to achieve regional development. (Smith 1992)
- (2) Keynes’ viewpoint is different. He begins the Chapter 18 of his book “General Theory of Employment, Interest and Money” (The General Theory of Employment Restated) with clarifying what elements of the economic system we have to take as given and what the independent and dependent variables are. “We take as given the existing skill and quantity of available labour, the existing quality and quantity of available equipment, the existing technique, the degree of competition, the tastes and habits of the consumer, the disutility of different intensities of labour and of the activities of supervision and organisation, as well as the social structure including the forces, other than our variables set forth below, which determine the distribution of the national income.”⁴ It does not mean that he assumes these factors to be constant, but only that, in this place and context, he does not take into account the effects and consequences of changes in them. The independent variables, in the first instance, the propensity to consume, the marginal efficiency of capital and the rate of interest. The dependent variables are the volume of employment and the national income measured in wage-units. The factors, which he took as given, influence the independent variables but do not completely determine them. John Maynard Keynes was on the view that active governmental policy was necessary to achieve total employment. He argues that that employment, and thus, the performance of the economy can be enhanced through generating demand. (Keynes 1975)
- (3) Milton Friedman argues for the rules of the market. He suggests that the state does not have to intervene, the market solves the problem of regional inequalities. According to Friedman the free-marketed price system does not have basic faults that could bring about unemployment. He developed the theory of the natural rate of unemployment. It suggests that unemployment is basically voluntary and it shapes the natural rate of unemployment. The reason for the unemployment is that part of the employees is not willing to work for the wage offered. Consequently, there is a theoretical wage level at which the total employment can be ensured. *Wages have to be reduced to the equilibrium level* at which total employment can be achieved. That is, wages need to have downward flexibility.

³ Smith, A. (1992): Nemzetek gazdasága: E gazdaság természetének és okainak vizsgálata, Közgazdasági és Jogi Könyvkiadó, Budapest 38. oldal

⁴ Keynes, J. M. (1965): A foglalkozás, a kamat és a pénz általános elmélete, Közgazdasági és Jogi Könyvkiadó, Budapest, 268. oldal

3. Attempts to solve the problem: Regional economic development and employment policy in Hungary

Interventions in Hungary so far have bitten a bit into each of the above theory.

Developing infrastructure is dominant *in regional policy*, which enhances the demand side of employment. Following this Keynesian way of thinking, it may expand the internal market, which lays the groundwork for establishing further businesses. *Business development measures* develop the instrumental background: they enhance professional skills, develop technologies and provide capital. Measures helping the *attraction of external investors* expect to solve the regional employment problems by trusting in and somewhat strengthening the *self-regulating system of the market*. Analysing the conclusions of the problem tree (Figure 5), some basic shortcomings can be seen. Directly increasing demand and strengthening the factors determining initiative skills are almost not included in the measures of the regional policy so far.

Employment policy is clearly socially determined. Its objective is to socially help those who have become unemployed. Less stress is placed on the recovery from the situation apart from short-term measures. Involving masses of unemployed into the economic revitalisation of the regions have not been typical at all. (Köllő 2005, Boda 2007)

The expenditures of the Labour Market Fund, almost 2% of the GDP in 2008, have doubled between 2004 and 2008 at national level (Figure 8). Thus, 44.410 million forints in 2004 and 88.255 million forints in 2008 were spent on active employment tools. While the internal proportions hardly changed, money spent on public work did not double, it rather quadrupled. All in all, the amount spent on public work accounted for 1,8% in 2008.

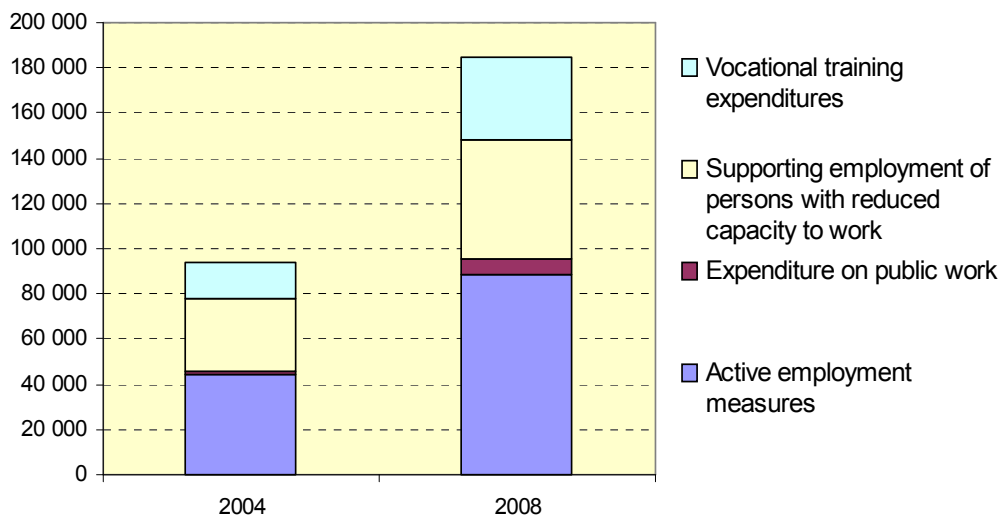


Figure 8: Expenditures of the Labour Market Fund (million forints)
Source: Own compilation on the basis of HCSO data

Northern Hungary and Northern Great Plain are by far the most outstanding among the Hungarian regions in terms of the expenditures on public employment. In 2008 4.671 million forints were spent on public employment in Northern Hungary which demonstrates a significant increase compared to the 3.627 million forints in 2004.

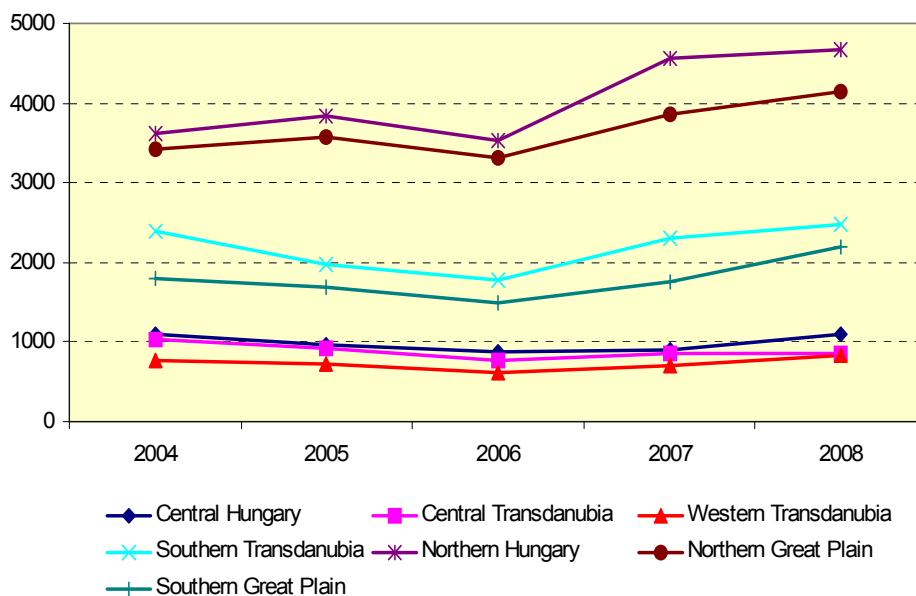


Figure 9: Amount spent on employment for public purpose (million HUF)
Source: Own compilation on the basis of HCSO data

The expenditures grew in spite of the growing number of the registered unemployed, however the number of participants in public employment declined in the North Hungarian region between 2004 and 2008. In 2004 16.247 persons and in 2008 13.253 persons could be involved in the public employment. Besides, the annual average proportion of the unemployed involved in the public employment from among those receiving unemployment benefit gradually decreased. 42.963 persons received regular social allowance in the North Hungarian region in 2008 and 3.676 persons were publicly employed from among them. It is a 3,2% rate which shows a significant decline from the 5,2% of 2004.

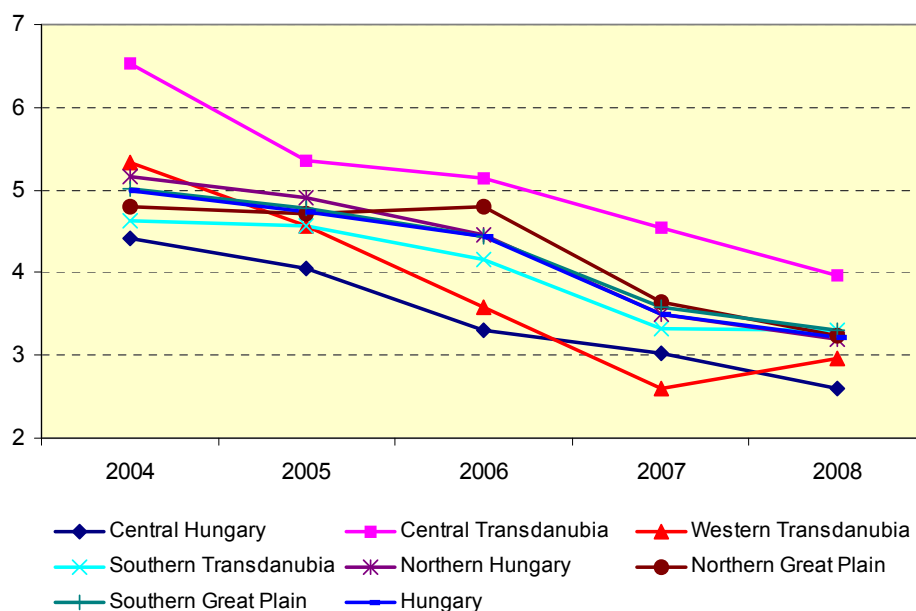


Figure 8: Rate of regular social support recipients in employment (%)⁵
Source: Own compilation based on HCSO data

⁵ Rate of regular social support recipients in employment = Number of regular social support recipients in employment / Regular social support - yearly average number of recipients

The extent of public employment is the highest in Northern Hungary. Every 30th employed is given job by public employment. Public employment plays an increasing role in the reduction of unemployment in the Region. The rate of publicly employed (per employed) was 3,12% in the North Hungarian region in 2008 and 0,54% in the West Transdanubian region.

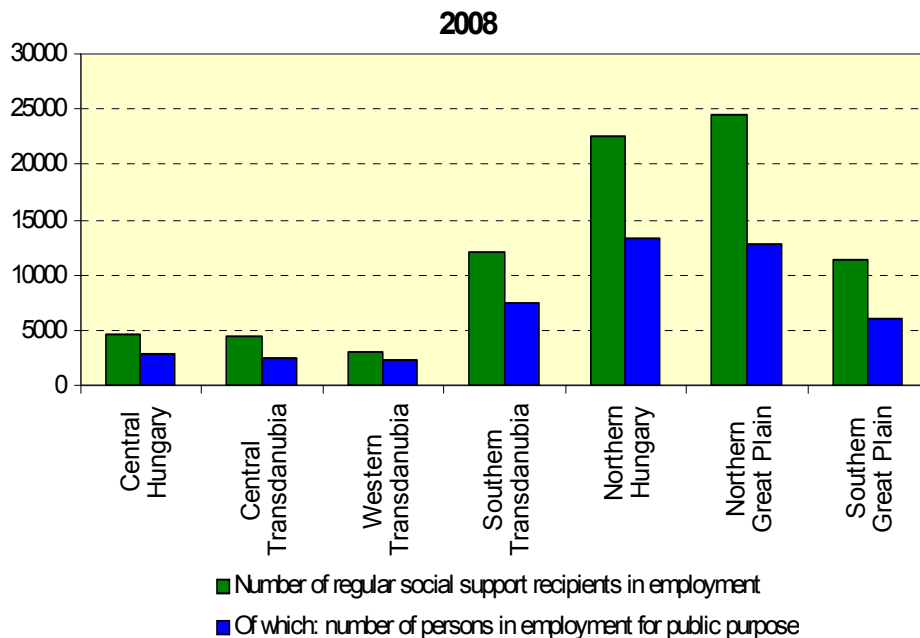


Figure 9: Public employment by regions
Source: Own compilation based on HCSO data

The contemporarily running, however isolated regional and employment policy treatments did not fulfil the hopes in the North Hungarian region. The lack of success was manifested in the followings:

- (1) The lag behind of other regions increased rather than decreased in spite of the growing expenditures.
- (2) The employment capacity of the businesses could not be improved. The employment rate dropped below 49,5% in the North Hungarian region. It did not even reach 15% in the roma population.
- (3) Subsidising the unemployed who are able to work caused a growing social dissatisfaction.
- (4) Public employment did not have an economic revitalising effect; it was rather a hidden local-governmental financing in cases when employment subsidies were claimed for performing tasks that should have been performed anyway and the local governments had no sources for that.

The “Way to Work” program started after these preliminaries in 2009. The Program provided work for active job-seekers who could not find job. They were employed in public employment for at least 90 days per year and received the maximum of the minimum-wage.

The *advantages of the program* are that (1) it has a greater motivating power to work (higher earnings than social allowance); (2) children’s socialisation for work is getting stronger, they are inspired by parents’ example; (3) it takes regional discrepancies into account: it is the greatest in Northern Hungary and Northern Great Plain.

The *disadvantages of the program* are that (1) it provides only temporary (3-month) solution to the individual who and his or her family will fall back to the previous status after a short employment; (2) it is still associated with a hidden local-governmental financing, but they cannot

be involved in performing public tasks requiring higher qualifications due to the narrowing of the target group; (3) the economic result does not count, the one-sided social approach further exists; (4) the unwritten rules of selection impair the equal opportunities of women (man enjoys priority within the family), they enhance the power of local petty monarchs.

Table 1: „Way to work” Main features of the program

Point of decision	Rule	Problem
Who	People eligible for regular social allowance, non-employed of working age, people eligible for availability allowance	One person per family – a man – the woman in disadvantage Subjective selection – „the useable person „relatives, friends”
For how long	The local government provides 90-day participation in public employment for those receiving availability allowance	Temporary – no time for getting used to it, falls back to previous status soon
For what job	For public work (home nursing, village maintenance, flood protection, canal cleaning)	Little value creating, sensible work – demoralising effect For compulsory local-governmental tasks – it would require continuity
For how much	The pension minimum complements the income of the family up to 90% (maximum is the net minimum wage, 57,815 forints)	
With what complementary service	Obligation to get the minimum school qualification (to complete primary school)	It does not bring about a permanent change for the majority

Source: Own compilation

4. New approach to treating the problem: expectations and recommendations

The novelty of the problem treatment is that we consider the problems of the low economic performance and high employment simultaneously, and we regard synergic regional policy and employment policy interventions as necessary. The starting principle may be that a workplace cannot be established only for the sake of employment, there should be a sensible economic activity and performance in the background of employment efforts. The ways of solutions could be the more and more vivid non-profit activity, which can be seen as a spontaneous way of treatment of the problem, and the public employment connected to local governments. Expectations can be set up, on the basis of the joint requirement of regional economy and employment, against the alternative solutions of employment that can improve regional development.

These are:

- Observable extent at regional level – it should provide solution for at least 20% of the unemployed,
- It should take closer to permanent employment – via continuous work opportunity and admission to the primary labour market,
- It should create value – it should contribute to the economic performance of the region,
- The product or service should satisfy real needs – even though there is no solvent demand,
- It should improve the employees’ competences and enhance the intellectual capital – it should provide quality
- It should socialise for responsible work – it should improve attitude to work,
- It should contribute to network development – it should enhance the social capital of the region.

These together definitely exceed the competencies of the local governments, which are currently the only actors in public employment, since they have to cope with many other tasks and they have no capacity to manage economic development tasks associated with employment.

Meeting the expectations requires the operation of an independent local employment organisation. These fall into two types:

1. The employment companies arrange the training, coaching and sending or the direct employment of the unutilised workforce to governmental infrastructural developments as state-owned organisations (Frey 1997).
2. The social enterprises explore the unsatisfied local needs and arrange, connecting to the civil sector, the relating services via involving the available local workforce and voluntary people. (Nyssens 2006)

Both forms have antecedents in the North Hungarian region.

- (1) The employment companies (e.g. in Ózd) operate with a significant state support and typically operate in a big scale (with several hundreds employees). Their relationship with the business sector is unsettled. They presume the launch of grand infrastructural programs.
- (2) There are not many social enterprises. Several social co-operatives and some associations of social function, 15-18 organisations fall into this category altogether. They employ 200-250 persons in areas that are relevant in terms of regional development. Therefore, there are agricultural, handicraft, cultural, social service provider and info-communication business. They are typically financial support dependent. They can get support as project financing for 2-3 years (not the whole length), afterwards they do not enjoy any preference. They do not get market income in the support period, however, afterwards they can only rely on that. The market income, however, is not a sufficient source. If they received part of the moneys dedicated for public employment, they could make their operation more balanced and could ensure permanent employment for their target group involving their market relationship. The proliferation of social enterprises is hampered by the current organisational and professional shortcomings, the weakness of the demand side of the market, as well as the uncertainties of financing (G. Fekete – Solymári 2005).

5. Conclusions

We suggest that the social enterprise form is able to accomplish permanent employment leading back also to the primary labour market in regions incapable of profit generation. The current national public employment, operating from a budget of 16.255 million forints annually, would be able to provide employment to 51.000 persons (as much as 13% of the current unemployed) in another distribution system by strengthening the spontaneous processes in the non-profit sector aiming at levelling off the regional discrepancies. Enhancing the acceptance of the social economy and, in the aforementioned four topic areas, its development would be desirable in order to make it happen. That is the following measures are necessary (G. Fekete 2007):

- (1) *Organisational development*
 - Developing the legal background
 - Establishing a background of experts
 - Involving voluntary people
 - Developing the infrastructural background of organisations
 - Developing information management skills
 - Building inter-organisational relationship, network
- (2) *Ensuring external background of professional support*
 - Involving external professional supporting staff
 - Establishing a regional methodology centre and idea-bank

- (3) *Creating a market background*
 - Quality assurance
 - Sales network and joint marketing
 - Task transfer of local governments
- (4) *Financing*
 - Market is the main financial supporter of the social economy.
 - Normative subsidies indirectly
 - Application for non-repayable grants
 - Creation of special financial institutions.

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