Jubileumi Kötet
Jubilee Volume

A SZE Állam- és Jogtudományi
Doktori Iskolájának
első 5 éve

First 5 Years of the
Doctoral School of Law and Political Sciences
Széchenyi István University

SZE - GYŐR

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Széchenyi István Egyetem Állam- és
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Hungary's Anti-Crisis Policies and the "Goulash" Way

Introduction

The traditional Hungarian dish called "goulash" (*gulyásleves*) is not only very famous in the world cuisine, but also in politics since it has "political" connotations indicating the exceptional "Hungarian way". For example the Hungarian way of socialism is called "goulash communism."[2] Furthermore, according to *Pogátsa*,[3] Hungary was the pioneer of the model called the "dependent competitive state"; "dependent" upon foreign direct investment and "competitive" for "accommodating foreign investments i.e. low wages" in the early 1990s in Central and Eastern Europe (CEE) except for Slovenia. It should also be underlined that Hungary is one of the rare examples of the peaceful transformation from communism to capitalism without even abolishing the constitution adopted in the communist era in the CEE.[4] It seems that Hungary is even today also following a unique path in order to overcome the political and economic crisis experienced in the year 2007 and onwards, although it is questionable how successful they are.

The aim of this article is to discuss anti-crisis policies implemented in Hungary and to show that Hungary is following a sort of a "goulash" way in-between neo-liberalism and unorthodoxy. On the one hand, Hungary is playing the game to an inch of the rules in terms of anti-debt and anti-deficit policies; on

1 I would like to thank to Pogátsa Zoltán, Nacsa Mónika and Laki Ferenc for their valuable comments on the draft version of this article.

2 Even according to Clark it is also possible to talk about goulash liberalism: "[s]ome time ago someone coined the phrase "goulash communism" to describe the revisionism of Khrushchev & Company; if this be so, then the mixture of bourgeois liberalism and Southern nationalism put forward by SSOC in its final months could very well be characterized as goulash liberalism." See Clark, Ed: Southern Students Defeat Liberalism: The South Must be Won. *Progressive Labor*, 1969/7(3).

3 Pogátsa, Zoltán: Hungary: From Star Transition Student to Backsliding Member State. *Journal of Contemporary European Research*, 2009/5(4), 600.

4 For the constitutional changes in Hungary between 1989 and 2010 and the re-design of the Hungarian constitutional system in 2010-2011, see Smuk, Péter: *Constitutional Changes in Hungary and the Character of the Hungarian Democracy.* International Conference "Constitutional and Political Processes in Central and Eastern Europe: 20 Years After" February, 2012. Moscow.

the other hand, Hungary is infiltrating unorthodoxy into the rules of the game.

In the first section, the macroeconomic performance, that is the relationship between growth, inflation and unemployment, of Hungary will be evaluated. Then in the second section, the effects of the crisis on the new constitution, which was entered into force on 1 January 2012, will be discussed. In the third and final section, anti-crisis policies in terms of (un)employment will be discussed.

1. Macroeconomic performance of Hungary: before and after the economic crisis

As is seen in Table 1, during the membership negotiations (1998-2002), Hungary achieved a reduction both in inflation (from 14,2% to 5,2%) and the unemployment rate (from 7,8% to 5,8), while keeping the growth rate band between 3,2-4,5%. The figures show that between 1997 and 2011, the correlation between the unemployment and the GDP growth rate is negative and significant.

Table 1: Macroeconomic indicators of Hungary

Years	GDP growth	Inflation	Unemployment rate
1997	3,1	18,5	8,7
1998*	4,1	14,2	7,8
1999	3,2	10	7
2000	4,2	10	6,4
2001	3,7	9,1	5,7
2002	4,5	5,2	5,8
2003	3,9	4,7	5,9
2004**	4,8	6,8	6,1
2005	4	3,5	7,2
2006	3,9	4	7,5
2007	0,1	7,9	7,4
2008	0,9	6	7,8
2009	-6,8	4	10
2010	1,3	4,7	11,2
2011	1,6	3,9	10,9

Source: Eurostat, National Accounts at a Glance 2011.
OECD 2011, Economic Surveys: Hungary – OECD, 2012.

* Negotiations between 1998 and 2002;
** EU Membership

Except for 2004-2006, after EU membership Hungary experienced bad economic performance. GDP growth fell to 1.6% in 2011 from 2004's 4.8%,

hitting the highest negative GDP change in 2009 with -6.8%. Moreover the unemployment rate increased from 6.1% to 10.9%. The only positive development regarding the macroeconomic performance was the decrease in the inflation rate from 6.1% to 3.9%. Although there was a tendency in favor of inflation and to the detriment of unemployment between 2004 and 2006, GDP growth was relatively high. Despite the fact that economic crisis mostly hit Hungary especially in 2009 when the Prime Minister resigned in March, Hungarian economy could not climb over 1.6% growth rate on average in a year after 2007. From 2007 to 2011, while unemployment increased from 7.4% to 10.9%, the inflation rate decreased from 7.9% to 3.9% confirming Phillip's curve that unemployment was the price to be paid for the sake of inflation.

Table 2: Expected macroeconomic performance according to convergence programs (%)

Years	1st convergence program March 2011			2nd convergence program April 2012			Difference (1st program - 2nd program)		
	GDP*	U*	Inflation	GDP	U	Inflation	GDP	U	Inflation
2011**	3,1	10,9	4,0	1,7	10,9	3,9	1,4	0,0	0,1
2012	3,0	10,5	3,4	0,1	10,9	5,2	2,9	-0,4	-1,8
2013	3,2	9,9	3,0	1,6	10,3	4,2	1,6	-0,4	-1,2
2014	3,3	9,3	3,0	2,5	9,5	3,0	0,8	-0,2	0,0
2015	3,5	8,7	3,0	2,5	8,9	3,0	1,0	-0,2	0,0

Source: Government of Hungary: *Convergence Programme of Hungary 2011-2015*, Budapest, 2011; Government of Hungary: *Annex 1: Convergence Programme of Hungary 2012-2015*. In: *A következő lépés, Széll Kálmán Terv 2.0*, Budapest, 2012. "U" stands for unemployment;

* According to the conservative but not dynamic path of growth;
** Prediction for the 1st Plan.

According to the OECD economic predictions, priority of inflation against unemployment would continue. According to the OECD Economic Outlook,[5] inflation would drop to 2.9%, while unemployment hit 11.8% in 2013. However, the 2nd Convergence Program says the opposite. Instead of increase, the plan foresees a decrease in the unemployment rate to 10.3%, while it predicts

5 The consumer price index for 2013 is expected to be at 2.9% and the unemployment rate (% of labour force) is expected to be at 11.8. Projections from 2011 onwards are from OECD *Economic Outlook No. 90*. In: *OECD Economic Outlook: Statistics and Projections* (database), 2011. (28 August 2012).

an increase in the inflation rate to 4.2% in 2013 as is seen from Table 2. So, at least as of 2012, it is possible to argue that the Hungarian government gave priority to unemployment instead of inflation. Table 2 also shows that the 1st Convergence Program released in March 2011 was not so realistic that Hungary had to readjust the predictions about the data in April 2012.

As of 11 September 2012, according to the latest data released by the Hungarian Central Statistical Office (*Központi Statisztikai Hivatal* – KSH) the inflation rate (consumer price changes) in July 2012 is 6%, the unemployment rate in May-July 2012 is 10.5% and GDP for the 2nd Quarter of 2012 is –1.3%. It seems that despite readjustments in the figures in the 2nd Convergence Program, realizations for 2012 (except for the unemployment rate[6]) are still worse than expected and the Hungarian economy is still in crisis with deteriorated macroeconomic performance.

2. Deficit, debt and the new constitution

Due to the latest elections in 2010, *Fidesz* (*Fiatal Demokraták Szövetsége – Magyar Polgári Szövetség/Federation of Young Democrats – Hungarian Civic Alliance)* and *Viktor Orbán* could get the supermajority (with the 68%) of the seats in the parliament with the 53% of the votes.[7] With this supermajority, the ruling government could have power to change the constitution adopted in 1949. The influence of the crisis on the constitution is quite clear especially in terms of fiscal regulations, which will be discussed at the end of this section.

Table 3: Government deficit and debt in Hungary, 1995-2011, percentage of GDP

Years	General government deficit/surplus	General government gross debt
1997	-6,00	62,90
1998*	-8,00	60,90
1999	-5,50	60,80
2000	-3,00	56,10
2001	-4,10	52,70
2002*	-9,00	55,90
2003	-7,30	58,60

6 However, despite the relative amelioration of the rate of unemployment, there is still long way for the pre-crisis level of unemployment.

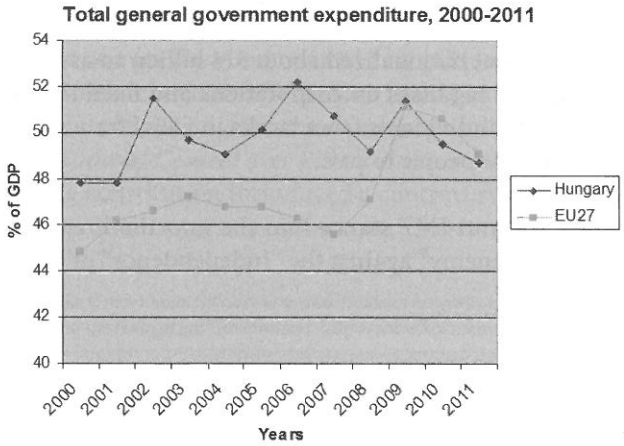
7 For an elaborate analysis of the political composition of the Hungarian Parliament between 1990 and 2010, see Smuk, Péter: *The Hungarian Parliament 1990-2010*. In: *Časopis pro právní vědu a praxi*, 2010/18(2), 153-157.

2004	-6,50	59,50
2005	-7,90	61,70
2006*	-9,40	65,90
2007	-5,10	67,10
2008	-3,70	73,00
2009	-4,60	79,80
2010*	-4,20	81,40
2011	4,30	80,60

Source: Eurostat,
*Elections.

In order to understand why debt and deficit related rules are included in the constitution, it will useful to look at the government deficit and debt figures of Hungary. In Table 3, two out of five Maastricht criteria, namely budget deficit and public debt rates,[8] are indicated in terms of Hungary. For the ruling government, these two variables are the biggest challenges as they are the two of the main policy objectives in the structural reform programme.[9]

Graphic 1



Source: Eurostat
http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00023

8 It is interesting to note that Hungary's general government gross debt (80.60% in 2011) is relatively better than EU17 Euro Area (87.2% in 2011) and EU27 (82.5% in 2011) according to Eurostat data. See: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb090.
9 Ministry for National Economy: Hungary's Structural Reform Programme 2011 – 2014 based on the Political Thesis of the Széll Kálmán Plan, Budapest, 2011. 12.

Hungary's government surplus performance in 2011 of 4.30% is quite positive due to a sudden increase of total general government revenues from 45.2% in 2010 to 52.9% in 2011 and decrease in total general government expenditures from 49.50% in 2010 to 48.70 in 2011. What is also striking is that after the economic crisis, Hungary's level of total general government expenditures, for the first time after passing to capitalism, is below the average of the EU27 in 2010 and even continued in 2011 as indicated in Graphic 1. Furthermore, it seems that for the first time, "electoral cycle"[10] did not apply to 2010 elections. There used to be a steady pattern in Hungary that in each election year, public expenditures and budget deficit hit the highest rate when compared to previous four years term. However this pattern was broken in 2010. On the contrary, even the level of general government expenditures went down in the same year. However, this time, Hungary's debt hit record high with 81.4% in 2010 election year.

As part of structural challenges' strategy, the first aim of the government is to reduce public deficit and debt, by improving the structure of expenditures,[11] which means revenue increase, debt and expenditure reduction.[12] At this point, it should be underlined that on the one hand Hungary is following the neo-liberal way in terms of decreasing public expenditures; on the other hand it is flirting with the unorthodoxy in terms of decreasing the debt. Unorthodox policies of the Hungarian government are as follows:[13]

> Orban's government nationalized about $14 billion in assets from private pensions, imposed big taxes on corporations and fixed the exchange rate for loans taken by individuals from banks in Swiss francs for three years, to make it easier for people to pay.

Kotosz[14] adds the anti-IMF stance into the unorthodoxy as arguing that IMF has seen as an "enemy" against the "independence" of Hungary.

10 The general trend was that "in the election years both budget deficit and public expenditures increase together." See Şener, Hasan Engin: *Administrative Reform as an Opportunity: The EU Accession Process in Hungary and Turkey*, Phoenix, Ankara, 2009. 252. See also Pogátsa: *op.cit.* 605. and Jankovics, László: *Public Finance Reform in Hungary: Light at the End of the Tunnel? In: ECFIN Country Focus*, 2008/5(4), 1-6.

11 Government of Hungary: *National Reform Programme of Hungary 2011-2015*, Budapest, 2011. 81.

12 Government of Hungary: *Convergence Programme of Hungary 2011-2015*, Budapest, 2011. 32.

13 Compare Oprita, Antonia: *Investors Unnerved by Hungary's 'Unorthodox' Measures.* In: CNBC, 25 September 2011. http://www.cnbc.com/id/44639381/?Investors_Unnerved_by_Hungary_s_Unorthodox_Measures.

14 Kotosz, Balázs: *The unorthodox answer of Hungary to global financial crisis.* http://www.asso-economiepolitique.org/political-economy-outlook-for-capitalism/wp-content/uploads/2012/06/kotosz_balazs _The-unorthodox-answer-of-Hungary-to-global-financial-crisis.pdf.

As for the role of the nationalization of the pensions in terms of the debt reduction and*rás Giró-Szász*,[15] government spokesman, explains the point that "the private pension scheme blew a 400 billion forint hole in the state budget each year." Therefore it is argued that the nationalization policy was followed for the sake of expenditure reduction. As to "plugging the revenue gap with a windfall tax on banks"[16], which was initiated for the sake of revenue increase, *Giró-Szász*[17] argues that the transaction tax has spread to France and Slovakia after Hungary. Nevertheless, these unorthodox policies attracted much criticism and "Fitch became the third ratings agency to downgrade Hungary's debt to junk"[18] after *Standard and Poor's* and *Moody's*.

Under these circumstances, the Hungarian government added new and hard measures in the constitution to challenge the two archenemies, namely government deficit and debt. As already mentioned, the constitution's anti-crisis feature is quite clear. By using *Szente*'s titles,[19] it is possible to explain the situation with the following amendments and consequences:

i. Debt ceiling rules;
ii. Restricting judicial control over public finance;
iii. The restriction of budgetary power of the Parliament;
iv. Curbing the freedom of action of the next governments.

Debt Ceiling: It is a fact that anti-debt policy priority is reflected in the constitution with strict regulations. Although Maastricht criterion is 60%, according to the constitution (or the Fundamental Law of Hungary) the objective of the debt is set to 50% of the GDP.[20] If there is a reverse situation (as always was) the constitution rules that budget act must envisage a debt reduction.[21]

Restriction of Judicial Control over Public Finance: What is also important to note is that the constitution introduced a controversial limitation[22] to the

15 Giró-Szász András: *Government Spokesman: Unorthodox Hungarian Economic Policy is Spreading in Europe. In: Website of the Hungarian Government.* http://www.kormany.hu/en/prime-minister-s-office/news/government-spokesman-unorthodox-hungarian-economic-policy-is-spreading-in-europe.

16 The Economist: *Hungary's Economy: Hat in Hand Again*. 21 November 2011.

17 Giró-Szász: *op.cit.*

18 Oprita, Antonia: *Fitch Cuts Hungary to 'Junk' on 'Unorthodox' Policies*. In: CNBC, 6 January 2012. http://www.cnbc.com/id/45898685/Fitch_Cuts_Hungary_to_Junk_on_Unorthodox_Policies.

19 Szente, Zoltán: *The Constitutional Effects of the World Economic and Financial Crisis – a Case Study of Hungary*. Summer Seminar: Effects of the Economic Depression to Law and State in Central Europe, Széchenyi István University, Doctoral School of Law and Political Sciences, Győr, Hungary, 17 July 2012. http://doktiskjog.sze.hu//downloadmanager/details/id/4395/m/3620.

20 The Fundamental Law of Hungary, Article 36(4): *"Parliament may not adopt a State Budget Act which allows state debt to exceed half of the Gross Domestic Product."*

21 The Fundamental Law of Hungary, Article 36(5): *"As long as state debt exceeds half of the Gross Domestic Product, Parliament may only adopt a State Budget Act which contains state debt reduction in proportion to the Gross Domestic Product."*

22 The Fundamental Law of Hungary, Article 37(4): *"As long as state debt exceeds half of the Gross Domestic Product, the Constitutional Court may, within its competence set out in Article 24(2)b-e),*

power[23] of the Constitutional Court, which was criticized[24] by Venice Commission[25] as follows:

> In its March Opinion, the Venice Commission has already expressed its regrets with regard to this serious limitation of the competences of the Constitutional Court introduced in November 2010 by constitutional amendment. In its view, such a limitation creates the impression that capping the national budget at 50 per cent of the GDP may be considered to be such an important aim that it may even be reached by unconstitutional laws.

Restriction of Budgetary Power of the Parliament: Budget council (a.k.a. fiscal council or monetary council) is another important regulation in the new constitution, which limits the power of the Parliament. The fiscal council was firstly introduced by the "Act LXXV – Cost efficient State Management and Fiscal Responsibility" in 2008 and became functional in 2009. However, the functions of the council were highly limited and "the council did not receive any decision-making powers."[26] The old system was changed in 2011 with the "Act CXCIV of 2011 on the Economic Stability of Hungary"[27] and "a right to return the draft budget" for only once was granted.[28] However, with the new constitution, a veto right was granted to the council[29] and became a very powerful constitutional institution.

only review the Acts on the State Budget and its implementation, the central tax type, duties, pension and healthcare contributions, customs and the central conditions for local taxes for conformity with the Fundamental Law or annul the preceding Acts due to violation of the right to life and human dignity, the right to the protection of personal data, freedom of thought, conscience and religion and with the rights related to Hungarian citizenship. The Constitutional Court shall have the unrestricted right to annul the related Acts for non-compliance with the Fundamental Law's procedural requirements for the drafting and publication of such legislation."

23 According to Gniazdowski and Sadecki (2011) "Fidesz reduced the court's powers already in 2010. When the court deemed a law retroactively imposing an additional 98% tax on the highest severance pays in the public sector to be unconstitutional, Fidesz amended the constitution to reduce the court's competences in budget and tax related issues and adopted the law in an unchanged form." As for the changes related to the Hungarian Constitutional Court, see Smuk: *Constitutional*...5-6.

24 However, State Secretary for Government Communication argues that "with the introduction of the national debt 'cap' we are not weakening control, but *strengthening* it."

25 Venice Commission: *Opinion on the new Constitution of Hungary adopted by the Venice Commission at its 87th Plenary Session* (Venice, 17-18 June 2011), CDL-AD(2011)016, 25.

26 Domokos, László: Credibility and Flexibility: Changes in the Framework of Hungarian Public Finances. *Public Finance Quarterly*. 2011/3, 294.

27 What is interesting to note is that Fidesz was critical of the fiscal council's previous version. See Fehér, Margit: Hungary to Disband Fiscal Council. *Wall Street Journal*, 22 November 2010. http://blogs.wsj.com/emergingeurope/2010/11/22/hungary-to-disband-fiscal-council/.

28 Domokos: *op.cit.* 294.

29 The Fundamental Law of Hungary, Article 44(3): *"The adoption of the State Budget Act shall be subject to the prior consent of the Budget Council in order to meet the requirements set out in Article 36(4)-(5)."*

Curbing the freedom of action of the next governments: Independence of the Central Bank (whose president is elected for 6 years by the President of Hungary) and the State Audit Office (whose president is elected for 12 years by a 2/3 vote of the members of Parliament) becomes crucial since the presidents of these institutions will form the council with the president of the council to be appointed for six years by the President of Hungary.[30] This means that the future governments will have to work with the bureaucrats appointed under the influence of the current Prime Minister *Orbán*. Fiscal council, once a "toothless lion," despite its smallest organizational structure in the world, today becomes the strongest.[31] That is why the Hungarian government is criticized by *Fukuyama* as follows: "[a]ffected institutions include the National Bank of Hungary, controlled now by a Monetary Council largely in turn loyal to Fidesz – what's gotten the IMF upset."[32]

3. Employment policies against the crisis in Hungary

In the National Reform Program of Hungary[33] there are five annual growth priorities and five national targets in the context of Europe 2020 strategy.

Annual growth survey priorities are as follows:

i. Growth-friendly fiscal consolidation;
ii. Restoring normal lending to the economy;
iii. Strengthening Growth and Competitiveness;
iv. Tackling unemployment and the social consequences of the crisis;
v. Modernizing public administration;

As for Europe 2020 Strategy and national targets:

i. Increase of employment rate to 75% for the 20 to 64 year old population;
ii. Increasing the level of expenditure on research and development to 1.8% of the gross domestic product;
iii. Increasing the proportion of renewable energy resources to 14.65%, a total energy saving of 10% and a maximum increase of 10 % in the emis-

30 The Fundamental Law of Hungary, Article 44(4): *"The members of the Budget Council shall include the President of the Budget Council, the Governor of the National Bank of Hungary and the President of the State Audit Office. The President of the Budget Council shall be appointed for six years by the President of the Republic."*

31 See Domokos: *op.cit.* 299.

32 Fukuyama, Francis: What's Wrong with Hungary? *The American Interest*, 6 February 2012. http://blogs.the-american-interest.com/fukuyama/2012/02/06/whats-wrong-with-hungary/.

33 Government of Hungary: Annex 2: National Reform Programme of Hungary 2012-2015. *A következő lépés, Széll Kálmán Terv 2.0*, Budapest, 2012.

sion of greenhouse gases outside the EU's emission trading system (compared to the level in 2005);

iv. Increasing the share of those having completed tertiary level education or equivalent to 30.3% within the population aged 30-34 and reducing the share of early school-leavers (those without education or training in lower secondary education) to 10 per cent within the population aged 18-24;

v. The poverty rate of families with children, the number of people living in severe material deprivation and the number of people living in low work intensity households by 20% each (reducing the above numbers by 450 thousand people by excluding overlapping figures).

As can be seen from the objectives of the government, (un)employment policies are among the top priorities. According to *Pogátsa*[34] "the central weakness of the Hungarian economy" is low employment. Indeed, according to 2011 Eurostat data,[35] Hungary has the lowest employment rate for persons aged 20 to 64 rate (60.7%) after Greece (59.9%).[36]

In this section, some of the policies supported by the government will be evaluated including pensions, early retirement, disadvantaged people and flexibility.

3.1. Pensions and early retirement

Regarding the pension system,[37] the government implemented a very controversial policy by nationalization of private pensions[38] as mentioned above as part of unorthodox policy. This policy has been especially criticized in that it is against the "property rights."[39]

Another dimension of pensions is related to the removal of early retirement schemes, which is recommended by the European Commission,[40] as well. The early retirement scheme has been reviewed and a new law was introduced on 28 November 2011 and came into effect on the 1st of January 2012.[41]

34 See Pogátsa: *op.cit.* 610.

35 See on this issue further on the official site of the Eurostat: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tsdec420&language=en

36 Although the employment rate is still very low, as of May-July 2012, Hungary reached the pre-crisis level of 62.6%. See: http://www.ksh.hu/docs/eng/xftp/gyor/fog/efog21207.pdf

37 "Public expenditures on pensions are projected to increase from 11.9% to 12.6% of GDP between 2010 and 2060" (Government of Hungary, 2012. 44).

38 "Argentina is the only other country to nationalize private-pension assets in this way" (OECD, 2012. 79).

39 See Szente: *op.cit.*

40 European Commission: *Annual Growth Survey 2012.* 23 November 2011. Brussels, 4, 11.

41 MTI: MPs vote to scrap early retirement pensions. *Politics.hu*, 29 November 2011. http://www.politics.hu/20111129/mps-vote-to-scrap-early-retirement-pensions/.

Former police officers, other law enforcement and disaster management staff under 57 who used to be eligible for early pension will pay personal income tax on their pension if they decide not to return to work. This pension, however, cannot be lower than 150% of the minimal wage.

The objective was "to redirect as many people receiving pension below the retirement age into the labor market as possible."[42] Until 2012 the statutory retirement age was 62 for both men and women. It will gradually increase to 65 in the future. For men, only if they complete the statutory retirement age, can they qualify as pensioners. However as for women, it is possible to qualify as pensioners after 40 years of service.[43] So the government did not review the regulation regarding the women concerning early retirement.[44]

Another change is related to the budget to be paid for pensions. Instead of the social security fund, the central budget[45] will be used to finance the early pensions. However, "support paid to family members (widow's pension, orphan's benefits, parent's benefits) will continue to be financed from the Pension Insurance Fund."[46]

3.2. Disadvantaged people and flexibility in labor market

According to the Hungarian government's job protection plan as indicated in Table 4, there are five prioritized groups who are considered the most disadvantaged segments of society in terms of employment.

Table 4: Prioritized groups in the job protection action plan

Prioritized groups	Action
1.Unskilled job seeker & employee 2.Below the age of 25 job seeker & employee 3.Above the age of 55 job seeker & employee	* Social contributions will be cut 50% * Vocational training contributions

42 Government of Hungary: *Convergence*...62.
43 Government of Hungary: *Annex 2*...24-25.
44 See *Ibid.* 65.
45 "Pursuant to the Act on the Central Budget of Hungary, the budget of the Pension Insurance Fund is already a "pure" budget for pensions only and the benefits that are not considered pensions anymore have been moved to two other Funds: the National Family and Social Policy Fund and the Health Insurance Fund." Government of Hungary: Annex 1: Convergence Programme of Hungary 2012-2015. *A következő lépés, Széll Kálmán Terv 2.0*, Budapest, 2012. 56.
46 Government of Hungary: *National*...65.

4.The long-term unemployed	* Employer liabilities by 100% for the initial two years of employment * Third year on payable contributions will be half as much as they are today
5.Mothers with small children	* If they return to work from child care/maternity leave, no contribution payment will be required either in the initial two years and only half of the current liabilities from the third year

Source: http://www.kormany.hu/download/e/8c/90000/Job%20protection%20action%20plan.pdf

Main incentive for the disadvantaged people is the tax relief for the employers if they employ one of those categories. There are multiple programs in Hungary, which are called START. START is a program aiming at young people below the age of 25 (in the case of university, threshold is 30). Up until 31 December 2011, there used to be START Plusz and START Extra program for those who took parental leave and those over the age of 50. As from 1 January 2012, START Bónusz program and cards were initiated for those "job seekers registered permanently for no less than 3 months and after receiving child care allowance/parental leave/child raising allowance/care allowance."[47] Benefits also exist for people with disability and low-skilled labor.

Looking at the figures in Table 5, unskilled (those who took fewer than 8 grades of primary school or finished primary school) persons are mostly unemployed. 49.8% of those completed less than 8 grades of primary school are jobless, as for those who finished primary school, 23.8% of them are unemployed. Government would like to promote vocational training to make those unskilled persons skilled. However, it should also be underlined that due to huge numbers of vocational school graduates, they constitute the most unemployed percentage. Nevertheless, despite their huge numbers, 12.2% of their graduates are unemployed, which is closer to the average number of unemployed.

47 Government of Hungary: *Annex 2*...117.

Table 5: Unemployed persons by highest educational qualification in Hungary, 2011

Educational level	Unemployed (Thousands)	Unemployed (%)	(U*100)/(U+E)* (%)
Less than 8 grads of primary school	10	2,1	49,8
Primary (general) school	127,8	27,3	23,8
Vocational and apprentice school	154,9	33,1	12,2
Grammar School	40,7	8,7	10,5
Other secondary School	89,1	19,0	8,6
College	31,3	6,7	5,1
University	14,1	3,0	3,4
Total	467,9	100,0	10,9

Source: KSH http://www.ksh.hu/docs/eng/xstadat/xstadat_long/mpal9807_03_05a.html?943

*Derived by the author from KSH data.
U=Unemployed (thousands), E=Employed (thousands)

According to the KSH's latest figures of May-July 2012,[48] the unemployment rate of persons aged 15-24 increased by 3.1% to 28.1%. It seems that despite the relative decrease in the unemployment rate, youth employment is continuing to increase. As for the unemployment rate of those aged 55-64, it decreased by 1.3% to 7.3%.[49] New regulations concerning early retirement may have had an effective on the decrease of the unemployment rate of the 55-64 age group. As for long-term unemployment, 46.8% of unemployed people had been searching for a job for one year or more. It was 49.6% in 2011.[50]

As a consequence of the conservative ideology of the ruling government, family and women with children become highly important issues to be tack-

48 See www.ksh.hu/docs/eng/xftp/gyor/mun/emun21207.pdf

49 "The number of employed young people aged 15-24 years – which is low anyway – lessened to 211 thousand and their employment rate decreased by 0.4 percentage point to 18.2% compared to the same period of the previous year. On the other hand, the number and rate of employed people in the 'best working age', i.e. the age group 25-54 years, as well as in the older, 55-64 age group increased. The employment rate in these age groups showed an improvement of 1.9 and 1.5 percentage points and grew to 75.2% and 37.6%, respectively." See. www.ksh.hu/docs/eng/xftp/gyor/fog/efog21207.pdf

50 See www.ksh.hu/docs/eng/xftp/gyor/fog/efog21207.pdf

led. On the one hand the government is trying to increase the population; on the other hand, it is trying to attract women with children to work. It is a fact that Hungary is one of the EU countries having the lowest employment rate of women except for Malta, Greece and Italy according to the 2011 Eurostat data.[51] In May-July 2012, the number of women aged 20 to 64 in employment increased by 1.9% to 57% compared to the same term in 2011.

As of 1 January 2011, the modified family support system increased the age of the child from two to three for childcare allowances. Furthermore, tax allowances[52] for families are applied for parents raising children to reduce their tax base.[53] Government also promises to take measures in order to reduce labor costs of those returning from parental leave.[54]

One of the policies to increase the number of those returning from parental leave to the labor market is the promotion of part-time employment.[55] The promotion works as follows. If an employer fills one full-time position with two part-time employees and if one of this part-time positions is allocated to an employee returning from parental or childcare leave, then the employer will receive tax relief, that is, allowance from the social contribution tax.[56] Similar promotion exists for the youngsters. "Employers may also be eligible for a social contribution tax benefit in the event of the part-time employment of young workers."

According to the Act I of 2012 on the Labor Code, which was entered into force on 1 July 2012 and adopted by Parliament on 13 December 2011, part-time workers can be "employed under employment contract in jobs for up to six hours a day," (193/1) that is 30 hours a week. It should be underlined that 30 hours a week is the maximum working time for a part-time worker. According to the article 99(1), working time may even be less than four hours a day for part-time workers. The duration is very important because, the employee will acquire a right to terminate a contract without an obligation to provide information to the employee: "[t]he employer's obligation to provide information shall not apply if the working time does not exceed eight hours per week." (46/5b) Also the working time arrangement becomes very flexible since an employer can change the working time if the employer "informs the employee of the time of working at least three days in advance" (193/2).

51 http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec420&plugin=1

52 Government of Hungary: *National*...60.

53 Government of Hungary: *Convergence*...49-51.

54 Government of Hungary: *National*..., p.27.

55 *Ibid.* 26 and 53.

56 *Ibid.* 118.

Furthermore, it is possible to work on Saturdays or Sundays according to the article 101(1f) for part-time workers.[57]

Nevertheless, although the government is promoting part-time employment as a solution for unemployment, the rate is still the lowest among European countries with 6.4% as is seen in Table 6.

Table 6: Part-time employment rate (2000–2011)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	3.4	3,3	3,4	4,1	4,3	3,9	3,8	3,9	4,3	5,2	5,5	6,4

Source: http://www.ksh.hu/docs/eng/xstadat/xstadat_annual/i_int014.html

Conclusion

Hungary's anti-crisis policies fit to neo-liberal priorities up to a certain point. However, unorthodox policies diverge from neo-liberalism. That is why in this article the way followed by Hungary is defined as the "goulash" way. It is not the Blairite "third way" since it has nothing to do with the aim of social democracy, but rather "Hungarian" way of neo-right policies.

The Hungarian government is aiming at decreasing public expenditures, however, in terms of the inflation vs. unemployment clash as depicted by Phillips curve; *Orbán* has chosen the unemployment as a primary concern after 2011.

The government introduced a budget council having a veto power for the sake of budgetary discipline, but levied a transaction tax on the monetary transmissions and even considered the extension of the tax on the central bank taking a risk to clash with the IMF.

While making early retirement difficult and increasing the retirement age, the Hungarian government nationalized pensions.

The government on the one hand promotes the flexibility of labor market; on the other hand it prioritizes the employment of the disadvantage people.

It remains to be seen if Hungary will be successful or not *vis-à-vis* economic crisis, since the biggest problems are still there despite incremental amelioration: Low employment and high indebtedness. But what is clear now is that Hungary is following a unique "goulash" way.

57 *Ibid.* 30.