

Changes in Labour Market, Job Creation and Job Destruction from the Change of Regime till Nowadays

GIZELLA TÓTHNÉ SIKORA, Ph.D.
ASSOCIATE PROFESSOR

E-mail: alktsg@uni-miskolc.hu

SUMMARY

I analyse the confirmation of Hungarian labour market process and the characteristics of workforce mobility and flexibility in my paper. Workforce mobility is influenced by privatisation and the changes in the property structures. In my paper I deal with the coherence between globalisation and relocation, the geographical resettlement of workplaces and the foreign companies that provide job to 35% of the employees. In the next section of my paper I examine the structure of employment, using the job creation and destruction rates, the relative changes in the weights of employment sectors and the development in the market evaluation of workgroups of different age and qualification. The conclusion is that the result of efficient capital – efficient knowledge copulation raises the value of knowledge which is mainly the increment of young and high qualified workforce.

According to a recent forecast of Employment Office there have been significant flows in the Hungarian labour market in the past few months. The forecast was established on the basis of data collected from 4550 business organizations in September 2002. The balance came out to be positive as the number of employment inflow (109,000) exceeded the number of layoffs of 70,000. The forecast was confirmed by future happenings. One of the first factory shutdowns was the one from Mannesmann resettling its production from Sárbogárd to China in 2000. Belgian fast food restaurant chain Quick has also brought investments to halt in Hungary. In 2002 steelwork manufacturer Butler Manufacturing Co. with American stake sold its subsidiary (Butler Kft.) in Nyíregyháza, and than in November 2002 IBM in Székesfehérvár announces the largest layoff providing an insecure future for 3700 workers. Salamander shuts down in Bonyhád, Phillips resettles its production from Szombathely to China. Along with these well known international companies further layoffs are expected in Hollóháza, in the region of steel Borsod, at Ajka Kristály (glass-, crystal-ware) and at Vértesi Erőmű (power-plant).

In spite of layoffs the average number of employed in the last three months of the past year was 3,903,000, up with 23,800 compared to the same period of the preceding year according to KSH (Central Statistics Office). This means that recent significant job destructing is compensated by the effect of job creating investments. As a sign of return on policy for stimulating investment General Electric and Bosch is still expanding in Hungary.

At the same time business behaviour of Flextronics is individual but to some extent typical. As the world's second largest contracting plant, Flextronics invested 800 million dollars in half of a decade in three different cities, neither in Budapest. Reacting rapidly to changes in market industrial park in Zalaegerszeg was put up in three months where Ericsson mobiles are assembled and computer spare parts are manufactured. R&D and training centre is also to be found here and the factory of Zalalövő also plans to move to Zalaegerszeg. Flexible product structure of the industrial parks in Nyíregyháza and Sárvár is often modified. Production of game console Xbox for Microsoft is moved from Sárvár to China and some output capacity was also resettled to the Ukraine where the level of wage costs is nearly the third compared to Hungary. (Farkas, 2003) Phillips and IBM seem to be just as flexible in the market with IBM not only relocating factories but also funding a new IT firm. Phillips (Phillips Magyarország Kft.) plans to launch a more complex product in Győr with more value added.

GLOBALISATION AND RELOCATION, GEOGRAPHICAL RESETTLEMENT OF WORKPLACES

Ideas above mentioned are not only characteristics of Hungary but also of the whole world, they are part of our life. The big question of the third millenary is the question of globalisation, the expanding world economy

through the countries of the world, which affects them not only horizontally but also vertically, becoming an important element to consider. (Szentes, 2001) The open economy of Hungary has long been horizontally part of the world economy, but vertical, real economical integration could be reached only after the change of regime, which was enforced by the intensive inflow of international working capital.

Relocation, geographical resettlement of workplaces has contributed to the more intensive relationship between global players. Relocation arises either with foreign trade, or paid-work relations, or international capital investments. The most advantageous for multinational companies are direct investments. Pure relocation means that well confinable jobs disappear physically in one country and are moved to an other one.

In the region of Middle-Eastern-Europe massive appearance of relocation proper and direct capital investments of Western-European multinational companies could be first noted after the change of regime, influencing both the recipient countries' and mother countries' economy and labour market. (Neumann, 1997)

There are a lot of researchers dealing with patterns of relocation in the West. Literature of relocation mentions many important causal factors such as gaining market or low costs of wages. Outsourcing of jobs results layoffs in the mother countries and can be judged as something hurting interests of employees and as a consequence several strikes organized by trade unions, or political crisis have already took place in Western-Europe on the occasion of multinational companies moving to an other country or shutting down. According to a recent report of UNICTAD summarizing positive and negative effects of relocation from qualitative, quantitative and territorial aspects highlights that outsourcing production requiring intensive physical work increases effectiveness and competitiveness. (UNICTAD, 1994) As a result of structural changes the mother countries withhold profitable and more value added activities demanding intensive human capital. Same favourable consequences can appear in Hungary after international capital moving out of the country. But this supposes job creation for high-qualified workforce. Balance of disappearing jobs and new jobs can vary countries. In Germany in the 70's more jobs disappeared than were created as low wage labour force from the Far East showed up in the country. But in the 80's after outsourcing basic activity secondary activities resulted new jobs exceeding the number of destructed jobs. (Neumann, 1997)

Hungary also encouraged Middle-Eastern-European relocation at the end of XX. century playing an important role in easing massive unemployment after the change of regime caused by the fall of the Eastern markets and the cutting back of unprofitable sectors. Inflowing working capital demanded mainly unqualified labour. Along with leaving the country the companies take their production culture also with them to low-wage countries. This

change of structure evokes the opportunity of creating such production cultures, which require skilled labour, high professional skills and contain more value added.

FOREIGN COMPANIES IN HUNGARY

According to KSH (Hungarian Central Statistical Office) 35% of employees in Hungary are employed by foreign companies. As to economic policy concepts foreign companies are entitled to play a special, influencing role in Hungarian economical processes, which includes the creation of a development model. As a result of foreign investments the property structure of the Hungarian economy has changed. Companies in most sectors including the ones that provide a large part of output, and the ones in several service sectors have now got in the hands of foreign owners. With the spread of foreign companies the question of "rootlessness" evokes, which can be observed from several aspects. (Szanyi, 2002) To what extent are they able to integrate themselves into the Hungarian economy? On the other hand, what happens if "rootless" companies leave the country? What is the balance of inflow and outflow? How did they affect Hungarian economy? Positive and negative effects both occurred. Positive effects are regarding mainly the Hungarian contractors of foreign companies. Hungary joining the EU means that the economical climate surrounding foreign companies in Hungary will change such as the means of stimulating foreign investment. So far unclear if there is relationship between the more intensive activity of foreign companies in Hungary starting from 2000 and the country's joining of EU. But as you can see there are plenty of questions to answer. One of them is the effect of job creation and job destruction on labour market processes, on the conditions of employment on both sector-level and company-level and on the structural composition of labour force.

THEORY OF JOB CREATION AND JOB DESTRUCTION

Transformation in Hungary is over; an operating market economy was born. Perhaps uniquely in this region privatisation has generally ended in Hungary. Between 1990-1996 Hungary's capability of attracting capital was outstanding with the highest inflowing capital per capita. Delay in time, which is linked up the individual characteristics of privatisation has resulted that from 1998 on more capital was flowing to Poland than to Hungary. This situation generated two advantages for Hungary: inflowing capital has expanded modernisation activity, often including R&D too, and the rate of technologically intensive commodity groups has grown radically in Hungarian export, while the rate of technologically not so demanding commodity groups has decreased. (Rác, 2000)

Besides macro-economic advantages, effects on Hungarian labour market are also to be considered. Changes in the employment structure of the economy, in the composition of human resource in companies, effects on the different strata of employees. Instead of traditional indicators characterising labour market (participation rate, rate of unemployment) western statistical offices, research centres, universities dealing with this topic use indicators of job creation, job destruction, relocation to describe conditions of labour market and its flexibility. (Daood, 1998) Hungarian researches lead by Gábor Kertesi and János Köllő concerning the two stages of economical development, revaluation of human resources from the aspect of labour market apply these indicators. (Kertesi-Köllő, 2001)

When measuring the processes of job creation and job destruction firstly the company's average participation rate is calculated for two consecutive years, secondly companies are categorized whether the number of employees has increased or decreased. Consequently, the following indicators can be generated:

- > Gross rate of job creation: all employment growth at expanding companies in a particular sector divided by the average number of employed in the sector.
- > Gross rate of job destruction: decrease in employment divided by the average number of employed in the sector.
- > Net rate of job creation: difference of the first two indicators.
- > Gross relocation: sum of the first two indicators. Shows rate of change in employment structure.

These indicators concern the effect of changes in the company's lifecycle on employment, establishment of companies, layoffs, insolvency proceedings etc. and furthermore they assure the opportunity of analysing the transformation of economic structure. (Körösi, 2002)

Éva Surányi thinks that developed market economies bear an intensive job creation and job destruction process. An annual average of 10% of jobs is destructed and every ten jobs are followed by a new job. Although to a different extent but redistribution of jobs can be recognised in every sector of the economy and furthermore capability of reallocation and flexibility in labour market are varying between enterprises of one particular sector. There are several factors influencing reallocation of jobs, of which the most important are the size and age of enterprise. But property structure, wage level, capital intensity, level of production specialization, productive efficiency inside a sector are such factors that can either increase or decrease reallocation. (Surányi, 2002)

Research of flow of labour force in transition economies became one of the most popular objectives of researchers from the west. According to an Oxford researcher, Blanchard, in Hungary 71% of new jobs were filled with someone employed already instead of engaging the vast number of free labour force, the unemployed. This figure in Poland turned out to be only 40%. Flow of labour force could be perceived rather between two workplaces

instead of unemployment outflow. (Kertesi-Köllő, 2001) Two Belgian researchers from the University of Leuven, Bilsen and Konings observed labour market conditions in Bulgaria, Romania and Hungary between 1991-1994. They found out that job destruction was high in each country (9-13%) while job creation was low (under 1%). In transition economies structural changes of sectors were accompanied by high job allocation inside particular sectors. (Bilsen-Konings, 1998)

JOB CREATION AND JOB DESTRUCTION IN HUNGARY

Different indicators of job creation and job destruction along with KSH data prove that in the past 13 years flow of workplaces has resulted change in the structure of Hungarian economy, in the structure of employment and in the demographical (age, sex, qualification) and economical (job cluster, job relations) characteristics of employees as well. Changes in economy structure, in job clusters and in the composition of employees are to be further analysed.

Census figures of distribution of employees between sectors indicate that significant job destruction occurred in agriculture with this sector engaging 15,5% of all employees in 1990 and only the third (5,5%) in 2001. Weight of industry and building industry has also sunk from 37,9% to 32,9%. Consistently the weight of sector of services has increased from 46,7% to 61,6%. Fóti-Lakatos, 2002) Furthermore indicators of job creation and job destruction show that mining industry, energy sector and traditional light industry are net job destructors. So called narrow job reallocation indicators prove that the Hungarian labour market's reaction on the effects hitting companies of the competitive sector was flexible. The least flexible were mining industry and energy sector (10,6%), the most flexible was manufacture of machines (22,1%). Manufacture of machines suffering of massive layoffs in the mining industry at the early stages, has managed this outstanding net job creation figure by an intensive reallocation. (Körösi, 2002)

Transformation of economical structure has resulted shifting weights of different job clusters as well. Between 1990-2001 the weight of managers, white-collar workers and others in the sector of services has grown, while workers in agriculture, industry and building industry are less. (Fóti-Lakatos, 2002)

Flows in labour market significantly influenced not only the factors mentioned above but also the composition of employees. Value of school qualification has risen in market economy and at the same time the value of labour market experience attained in socialism has decreased. After the change of regime demand for unqualified labour has declined more intensively than the average. Number of jobs filled by unqualified labour (elementary school, vocational training school) was down by 48% in the first half of the 90's and stabilized at this level. Their crisis in

the labour market is clearly indicated by the rate of unemployment. Demand for skilled labour was also down by 11% during the first five years, but by 1999 their situation has normalized at the 1990-level.

Kertesi and Köllő say that on the way to market economy there are two stages regarding the value of qualification in labour market:

➤ at the first stage of transition, i.e. in the first half of the 90's, demand for unqualified labour has halved and consequently the wages were also significantly cut back. Demand for skilled labour has also decreased and their wages didn't get better as well, as a result of job destruction regarding jobs requiring skilled labour.

➤ at the second stage of transition, i.e. in the second half of the 90's, job creation improved the trends of wages. Situation got worse for elderly skilled labour compared to the younger generations of skilled labour whose wage-level increased.

Most beneficial was for those graduates who gained their degree at the time of the change of regime and entered the labour market when gross reallocation was dynamical and managed to establish themselves in foreign companies. Direction of revaluing human capital has changed and the devaluation of elderly skilled labour was accompanied by the increasing value of younger skilled labour. (Kertesi-Köllő, 2001)

Causes of revaluation evoke the question what are the covers of larger profits of young skilled labour? Using Cobb-Douglas production function researchers reported that the benefits of productivity of younger skilled labour have grown, while in case of elderly skilled labour it has declined.

Is it true that the connection of modern technology provided by foreign companies and modern knowledge produce extra benefits? Nevertheless, efficiently operating Hungarian owned companies confirm the hypothesis of efficient capital - efficient knowledge copulation as well. (Kertesi-Köllő, 2001)

Improving position of younger generations evokes the question whether "overqualified" young people really squeeze out unqualified labour inside the company? What role does direct substitution play in the structure of employment? Answer was sought by an EBRD research in which non-agricultural companies of Hungary, Romania and Russia, 300 each were observed. The research concerning 65,000 Hungarian employees states that the rate of direct substitution is low in Hungary.

10-15% of the unqualified lose their jobs therefore, while 30-35% of skilled labour establishes themselves in this way. The final consequence of the research in general is that reallocation inside the company is less considerable than reallocation between companies. (Köllő, 2002)

Researches carried out in the fields of Hungarian job creation and job destruction suggest that Hungarian labour market has of course individual characteristics due to the period of transition, but in many aspects similarity is to be recognized with the processes determining demand in the labour market of developed market economies. Flexibility of Hungarian labour market meets general market economy standards. High figures of job creation and job destruction indicate the fast and significant structural change of the competitive sector and not the flexibility of Hungarian labour market. Hopefully recent allocations of workplaces encourage a knowledge intensive economic structure with high productivity.

REFERENCES

- BILSEN, V. - KONINGS, J.: (1998) Job Creation, Job Destruction, and Growth of Newly Established, Privatised, and State-Owned Enterprises in Transition Economies: Survey evidence from Bulgaria, Hungary, and Romania, *Journal of Comparative Economics* 26.
- DAOOD HAMDANI: (1998) Job Creation, Job Destruction and Job Reallocation in the Canadian Economy. Statistics Canada, February
- FARKAS, ZOLTÁN: (2003) A Flextronics Magyarországon. HVG Archives, www.hvg.hu 04.03.
- FÓTI, JÁNOS - LAKATOS, MIKLÓS: (2002) A munkaerő-piaci helyzet a 2001. évi népszámlálás tükrében. Conference. Göd, November 10-11.
- GYÁRBEZÁRÁSOK (2003) www.fgyelonet.hu, 02.12.
- KERTESI, GÁBOR – KÖLLŐ, JÁNOS: (2001) A gazdasági átalakulás két szakasza és az emberi tőke átértékelődése. *Közgazdasági Szemle*, November
- KÖLLŐ, JÁNOS: (2002) Különböző iskolázottságú dolgozók vállalaton belüli helyettesítése. Szemelvények egy vállalati felmérésből. EBRD, 2000. Conference. Göd, November 10-11
- KÖRÖSI, GÁBOR: (2002) Munkahely-teremtés és – rombolás. In: *Munkaerőpiaci tükrök*, 2002 (pp. 137-138, 142-148 150-156) MTA Közgazdaságtudományi Központ, OFA, Budapest.
- NEUMANN, LÁSZLÓ: (1997) A relokáció jelensége: a munkahelyek áttelepülése Nyugat-Európából Kelet-Európába. *Közgazdaság*, No. 10
- RÁCZ, MARGIT: (2000) Magyarország EU-érettségéről a gazdasági makromutatók alapján. *Magyar Tudomány*, No. 7
- SURÁNYI, ÉVA: (2002) Nemzetközi tapasztalatok. In: *Munkaerőpiaci tükrök*, 2002. (pp. 138-142), MTA Közgazdaságtudományi Központ, OFA, Budapest
- SZANYI, MIKLÓS: (2002) A külföldi tulajdonú cégek Magyarországon: új fejlődési modell központi szereplői? MTA Világgazdasági Kutatóintézet. *Kihívások*, No. 159, October
- SZENTES, TAMÁS: (2001) A világgazdasági alkalmazkodás és felzárkózás feltételei az ezredfordulón, *Magyar Tudomány*, No. 4
- UNCTAD: (1994) *World Investment Report Transnational Corporations, Employment and The Work Place*. Geneva, United Nations

Összefoglaló

A tanulmány a magyarországi munkaerőpiaci folyamatok alakulását, a munkaerőmozgások jellegét és rugalmasságát elemzi. A munkaerőpiaci mozgásokra hatással van a privatizáció és a tulajdoni szerkezet átalakulása. A tanulmány foglalkozik a globalizáció és a relokáció összefüggéseivel, a munkahelyek földrajzi áttelepülésével, az alkalmazásban állók 35 százalékát foglalkoztató külföldi vállalatokkal. Ezt követően a munkahelyteremtés és a munkahelyrombolás mutatóinak segítségével az alkalmazásban állók foglalkoztatási szerkezetét, a különböző iskolázottságú és életkorú munkaerőcsoportok piaci értékelésének alakulását. Következtetés, hogy a hatékony tőke-hatékony tudás párosítás eredménye a tudás felértékelődése, amely döntően a magasan képzett fiatal munkaerő hozadéka.

Резюме

В статье описываются изменения в процессе рынка рабочей силы, анализируются структура и эластичность рабочей силы в Венгрии.

На перемещение (флуктуацию) рабочей силы влияет приватизация и изменения которые произошли в структуре собственности предприятий. В статье описывается связь между глобализацией и реллокацией, географическим переселением рабочих мест, с занятостью на иностранных предприятиях, на которых работает 35% от общей чисельности работоспособного населения Венгрии. Далее в статье с помощью разных показателей анализируется структура занятости рабочих в зависимости от образованности занятых.

Вывод: эффективное использование капитала и знания приводит к переоценке знаний, причиной которых в большой степени является доходность от квалифицированной рабочей силы.