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Employment Policy for Transition in Hungary and Poland

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Employment Policy for Transition
in Hungary and Poland

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Employment Policy for Transition in Hungary and Poland

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Employment Policy for Transition in Hungary and Poland

1. Introduction

Among the states of Central and Eastern Europe the nations of Hungary and Poland have been most aggressive in pursuing market reforms. While recent months have witnessed a resurgence in industrial output in both of these countries, the climb back to full employment remains a distant goal. Since 1989 employment in Hungary has fallen by more than twenty-five percent; in Poland there are 2.3 million fewer people working today compared with seven years ago.

To ease the hardship associated with worker dislocation and to maintain social stability during the transition, the governments of these countries provide unemployment compensation and a variety of active labor programs. The experience of Hungary and Poland provides a model for employment policy, by revealing what works and what does not work for economies in transition. The active labor programs adopted in recent years include nearly the full menu existing in nations with developed market economies: retraining, self-employment assistance, wage subsidies, public service employment, job creation investments, work sharing, early retirement subsidies, and the employment exchange.

This paper reviews employment policy in Hungary and Poland during the transition from planned to market economies. First, the macroeconomic context of employment policy is briefly described. Next the structure for administration of employment policy is stated. Active labor programs for each country are then reviewed. Section 5 provides a brief overview of passive labor support including unemployment compensation and unemployment assistance. This is followed by a discussion of systems for performance management of employment policy. The final section of reviews likely directions for change in employment policy.

2. The Macroeconomic Context of Employment Policy

Since 1990 both Hungary and Poland have experienced dramatic declines in gross domestic product and increases in unemployment. The only comparable experience in modern memory is the Great Depression of the 1930s. Table 1 profiles the context of employment policy in Hungary and Poland during the 1990s.

In a population of about 10 million with a labor force nearly half that size, registered unemployment in Hungary rose from 23,000 in January, 1990 to 705,000 in February, 1993. Kollo (1993) estimates that during this three year period a million jobs were lost in Hungary, with part of the loss (188,000) absorbed by the retirement of workers, while the working age population grew by over 100,000. He admits some job growth during the period, but also estimates that nearly a quarter-million dropped out of the labor force. Trends during the years 1989-95 in the Hungarian labor market and economy are summarized in Table 1. Since 1993 measured unemployment in Hungary has declined somewhat and as of April 1996 stood

at an 11.2 percent national average. Lázár and Szekely (1994) provide evidence from a survey of unemployment compensation exhaustees that the decline in Hungarian unemployment is associated with an excessive increase in inactivity.

Unemployment in Poland jumped from zero in 1989 to 16.4 percent in 1994 measured on the basis of registrations with the employment exchange. While unemployment estimates based on registered unemployment may be overstated because many persons who are truly inactive only maintain registration with the placement service so as to keep eligibility for national health insurance, this remains a dramatic increase. The registered unemployment rate in Poland has gradually declined in recent months, falling to 14.7 percent in May of 1996.

The rise in unemployment is one of many consequences resulting from transition changes including relaxed price controls, reduced state subsidies, and the loss of trading partners in COMECON countries. There have also been dramatic increases in consumer prices, public budget deficits, and foreign trade debts. These events have prompted international monetary authorities to require ever greater restraint on public spending. Nonetheless, the programs of employment policy pursued in both countries have been impressive. Table 2 summarizes the labor market support programs operated in Hungary and Poland.

3. Administration of Employment Policy

3.1 Hungary

Hungary is composed of twenty major administrative districts which include 19 counties (megye) and the capital city of Budapest. These twenty districts are the political entities to which labor market support programs are provided by a network of 20 County Labor Centers.

The Ministry of Labor is the leader in labor market support policy. Services are provided to job seekers through a nation-wide network of county labor centers and local labor offices. There is the National Labor Center (Országos Munkaugyi Kozpont - OMK) in Budapest. The OMK provides methodological support to the counties and general information on labor market trends and labor program activity to the public. There are twenty (20) County Labor Centers, and 179 local labor offices where programs are delivered to job seekers. There are about 9 local labor offices on average within each county which are supervised and supported by county labor centers.

3.2 Poland

Poland is divided into forty-nine major administrative districts which are called voivods. These forty-nine districts are the political entities to which labor market support programs are provided.

The Ministry of Labor and Social Policy is the leader in labor market support policy. Services are provided to job seekers through a nation-wide network of labor offices. There is the National Labor Office (Krajowy Urząd Pracy - KUP) in Warsaw. Which provides administrative support to the voivods and information on labor market trends and labor program activity. There are 49 Voivod Labor Offices and over 500 Local Labor offices where programs are delivered to job seekers. There are about 10 local labor offices within each voivod which are managed and supported by the voivod labor office.

4. Active Labor Programs

Both Hungary and Poland provide retraining, self-employment, and job creation investments. Wage subsidies are also given in each country, however, in Hungary the long term unemployed are the target group, while in Poland recent graduates are the beneficiaries. Hungary and Poland each operate Public Works programs. Poland also funds Intervention Works programs which are operated by private employers. Hungary operates Work Sharing and Early Retirement, two programs not available in Poland. Poland provides for early retirement through the public pension system. A work sharing scheme is also under current consideration in Poland.

Brief descriptions of the active labor programs operated in Hungary and Poland are given in Tables 3 and 4 respectively. While not listed in the tables, both countries also operate public employment services to help unemployed workers and enterprises fill job vacancies. The public employment services keep records of unemployed and job seekers, provide aptitude testing and vocational guidance, and solicit and register job vacancies. The active labor programs described in Tables 3 and 4 are as operated in 1995. Dramatic change is imminent in Hungary where it is likely that the menu of ALPs will be trimmed to four in

¹Hungary and Poland also operate passive labor market support programs for unemployment compensation. Micklewright and Nagy (1994) provide an excellent analysis of the working of the Hungarian system, and O'Leary and Targowski (1993, p. 12-3) provide an explicit statement of rules for the Polish system.

²In Hungary, rules for active labor programs were given in Act IV of 1991 entitled *Employment Promotion and Provision for the Unemployed*, amendments to this act were made in 1993. Money for active labor programs in Hungary is paid from the Employment Fund which receives an allocation from the unified budget of the national government. Active labor programs in Poland operate under rules established by Act number 106 of 1991 entitled *Concerning Employment and Unemployment*, and revised in Act number 1 of 1995 entitled *Concerning Employment and Counteracting Unemployment*. Active labor programs in Poland operate on money from Labor Fund which is financed by the national budget. In both Hungary and Poland, unemployment compensation is paid for by a payroll tax on employers and workers.

1996: retraining, self-employment assistance, wage subsidies for long term unemployed, and Public Works.

4.1. Placement Service

The public employment services in Hungary and Poland, also known as the placement service or employment exchange seek to: (1) find reemployment for job seekers, by (2) motivating registrants to search for work, and (3) maintaining a steady supply of job vacancy listings. In principle these goals are to be achieved by: (a) finding new job offers from employers, (b) matching job seekers with vacancies, (c) assessing the abilities, predispositions and expectations of job seekers, (d) supporting the conclusion of new employment contracts, and (e) providing assistance for the unemployed to actively look for a job.

The placement services provide job matching and vocational guidance services free of charge to all job seekers and employers without bias or coercion. In both countries, establishments are obliged to report to the nearest local labor office all job vacancies and opportunities for vocational preparation, but there is no penalty if openings are not reported.

In Poland, employers are also obliged to obtain from newly hired workers a declaration concerning their registration status with the Placement Service, and report to the local labor office within 7 days any newly hired worker who is registered as unemployed and seeking work. To retain eligibility for the Placement Service unemployed persons may not have earnings which exceed one-half of the minimum monthly wage, may not have received a self employment or farm loan from the labor fund, and may not have refused suitable work three or more times. are obliged to report to a local labor office (LLO) at least once a month, 'as well as whenever called by the LLO to confirm their job readiness, to take a job, or to receive information on opportunities for employment, training, or retraining.

Furthermore, in Poland provincial and local labor offices are required to provide vocational guidance, direction to a job, or direction to training. Medical, psychological, and pedagogic examinations should also be administered assess the job readiness of unemployed persons. These examinations must be provided free of charge. Administrative regulations specify procedures for: (1) registration of unemployed people and job seekers, (2) keeping records of unemployed and job seekers, (3) providing aptitude testing and vocational guidance, and (4) soliciting and registering job vacancies.

Two methodologically different studies of the federally funded-state administered national placement service in the United States--called the Employment Service--offer insight into improving program design in Hungary and Poland. Recently, an empirical study of Employment Service effectiveness was done by the United States General Accounting Office (1991), an earlier institutional analysis was performed by the Urban Institute (1977).

The General Accounting Office (GAO) report announced three principal findings: (1) among the states, programs which focused on program performance provided better placement results, (2) local offices performed best where there was great attention to individual employer and job seeker needs, and (3) programs for occasional technical assistance from the U.S. Department of Labor may help to improve the effectiveness of local services.

In making the first point the GAO stated that explicit measures of program performance reinforced by awards should be used, and that annual on site evaluations of local office operations should be conducted. The GAO found that an important means of providing more personalized services to workers is to exploit the services available in related programs such as retraining, while on the employer side more frequent communication with employers and quick referrals of job seekers to vacancies proved effective. Regarding federal involvement, the GAO found local management usually sufficient to achieve high performance, but suggested that many low performing local offices could have benefitted from federal management assistance.

The Urban Institute (1977) institutional analysis suggested that the most successful local Employment Service offices were those that: (1) had a clear and consistent mission with job placement as the primary objective, (2) operated with innovative and entrepreneurial professional leadership, (3) had an open internal atmosphere with good lateral and upward communication, (4) had few organizational levels, (5) delegated considerable responsibility to placement service officers, and (6) maintained close informal communications with employers. Success of the local offices was further enhanced when regional staff was divided into a large number of small local offices, and system resources were conserved by maintaining small regional and central administrative staffs.

The placement services in Hungary and Poland are ideally situated as an integral part of the local labor office. They serve as part of the entry point for one-stop-shopping for unified reemployment services. The application for job referral includes basic information which establishes a client's account. Referrals for placement or to other services including unemployment compensation, retraining, and public works are done from placement service within the local labor offices.

The requirement in both countries of monthly recertification to retain eligibility for unemployment compensation is one example of the many ways that linkages between programs should be maintained using the Placement Service.

³In an earlier report, the General Accounting Office (1989) identified the three most useful and popular measures of performance for the Employment Service. These were: (1) placement rate--percent of applicants placed in jobs, (2) permanent placement ratio--percent of placements in jobs expected to last more than 150 days, and (3) placement wage ratio--average placement wage divided by the average community wage.

Special groups of Placement Service clerks should be designated as "Job Developers," who will maintain regular contact with employers to identify skill needs, solicit vacancy listings, and expedite referral of qualified job seekers to vacancies.

Placement services should be available to both unemployed persons and employed persons wishing to change jobs. There should be no exclusions of eligibility for services based on earnings levels.

4.2. Retraining

Retraining is intended to: (1) provide professional skills to persons having none, (2) adjust the skill structure of labor resources to the changing needs of the economy over the long-term, and (3) get trainees reemployed. These goals can be achieved by: (a) skills development, (b) providing new professional skills for which there is a good demand among employers, (c) preventing layoffs due to skill deficiencies (on-site training), and (d) informing schools which provide occupational skill training about occupations with existing or predicted labor demand.

In both Hungary and Poland retraining is presented in three ways: (1) to the unemployed in classroom groups, (2) to the unemployed individually through payment for approved third party courses, and (3) and for groups at employers where workers risk layoff due to lack of skills. The following are the five main categories of retraining which may be used:

Classroom Skill Training - Basic classroom skill training to the unemployed is usually provided through subcontractors. It is intended to facilitate employment in occupations with labor shortages which require short term training--usually limited to less than six months duration. Areas of instruction include clerical, sales, machine trades, health care, cosmetology, building maintenance, and food service. Classroom skill training may also be conducted within firms together with On-the-job training. Subsidizing classroom skill training within firms is a means of preventing layoffs, however, it is difficult to separate out that training within firms which would have been conducted without subsidy.

Work Search Training - In the U.S., this has been found to be one of the most cost effective forms of training. It is offered to all clients through the public Employment Service which acts as a center for job vacancy information. This training includes written material, seminars, and support groups (job clubs). It has proven to be particularly

⁴Rules listed in Article 12 of the Employment Law which exclude people from the placement service are written as if to exclude people from unemployment compensation. Placement is an independent function of the SOLO which should not be denied. Problems result from corollary benefits of registration such as eligibility for the national health service.

valuable for older workers who have been laid off without the prospect of recall to their former job. It covers job search strategy, training in knowledge of the world of work, and work place behavior instruction for new labor market entrants.

On-the-Job Training - Arrangements are made with employers to train individuals in jobs which otherwise would not be available. The program is paid for by subsidizing all or part of the training costs including all or part of the wage during training. It is important to design and monitor the program to minimize subsidies paid to workers who would have been hired in the absence of the program.

Adult Basic Education - This is the most fundamental type of general training. In the U.S. it is generally subcontracted to continuing education divisions of the public schools. The ultimate goal is completion of the secondary school diploma equivalency exam. Achievement of universal verbal, written, and numerical competency by labor force members might be considered as a social objective of the industrial restructuring period.

Work Experience - This is provided in the form of a wage subsidy for new and inexperienced labor force members who are having difficulty finding employment. A subsidy is usually paid to the employer, but could be paid to the worker. The objective is to expose clients to the basic behavior required in the work place. Placements are usually made in governmental agencies or non-profit public service agencies. In Poland this experience is available from Public Works or Intervention Works projects.

In Does Training work for Displaced Workers?: A Survey of Existing Evidence Duane Leigh (1990) seeks to answer the question: Do some types of training work better than others for displaced workers? A large percentage of the unemployed job seekers in Hungary and Poland are displaced workers, because they have a history of attachment to a particular job, industry, or occupation, they have lost their job, they have no expectation of returning to their previous job, and have no prospects for employment in a new job, industry, or occupation. So that the findings of Leigh may be relevant for policy in Hungary and Poland.

Leigh (1990) examined evidence from nine different demonstration projects designed to study if training can help displaced workers gain reemployment in regular jobs. The demonstration projects he studied were run in the United States, Canada, and Australia during the decade of the 1980s. Leigh found that job search training and assistance increased reemployment and earnings and reduced unemployment compensation costs. Furthermore, job search training and assistance is relatively inexpensive and can be used as a means of

⁵A payment directly to the workers is usually referred to as a wage supplement. This idea is discussed more in Section 111.8 of this report: Wage Subsidies for Hiring Recent Graduates.

rapid response when there are mass layoffs or plant closings. Leigh also found that classroom skill training, which tended to be relatively expensive, did not have a significant affect on employment and earnings of displaced workers. Leigh (1990, p. 103) states that "regarding on-the-job training (OJT), it is interesting to note that the [U.S.] Secretary of Labor's Task force on Economic Adjustment and Worker Dislocation (1986, pp. 33-4) recommends that OJT rather than classroom training be regarded as the primary source of long-term skill upgrading for displaced workers."

The two other categories of training listed above--Adult Basic Education and Work Experience--are more appropriate for those who are less job ready. Adult Basic Education is the first assistance required by people for whom testing at the placement center reveals deficiency in reading and/or arithmetic abilities. Since these basic skills are prerequisite to occupational skill training. Direct costs of Adult Basic Education should be minimal. Local labor offices should work closely with local public school authorities who may operate evening adult education programs. More generally, it should be noted that interaction with external human resource and social service agencies is essential to cost effective coordination of service delivery within local labor offices.

Work experience provided through direct job creation programs such as Public Service Employment in Hungary and Public Works and Intervention Works in Poland is primarily useful as a means of establishing or re-establishing work place behavior skills. This type of activity usually does not provide significant training in occupational skills--nor should it. Occupational skills training is most effectively delivered through On-the-job and Classroom training. A primary function of job creation programs is income support, but persons for whom work experience amounts to real training could also likely benefit from Adult Basic Education provided during the same time as work on public projects.

Since training is most successful when it is targeted to occupations for which there is a labor demand. The labor ministries in the countries should establish an inter-agency research group across the ministry, the labor office and the central statistical office, and provide funding for this group to develop, conduct, and analyze regular surveys to track labor demand for well defined occupational groups.

Referral to fund supported training should only be done by the Placement Service only after tests have been performed for reading and arithmetic literacy and occupational aptitude. The Placement Service should be designated within the employment offices as the main point of entry for one stop shopping reemployment services. Based on testing and an applicant's work experience, the Placement Service would first investigate available job openings and make a referral to any appropriate jobs. Eligibility for unemployment compensation would then be evaluated. After this, based on work experience and the results of testing, clients would be referred to appropriate services. In addition to other labor market programs, these services include five types of training--job search, on-the-job, skill, adult basic education, and work experience. To achieve targeting of services to special groups, eligibility screens for training would be applied by the Placement Service.

In making retraining grants to employers special precautions should be taken to minimize the deadweight loss associated with having the government funds pay for training which would have been conducted anyway.

Standard procedures for selection of enterprises which will provide training should be established. Selection of trainers should be done competitively based on content and quality of the training and labor market success of training course completers. There should be a regular schedule for announcement of the availability of funds for training. Establishments should submit detailed proposals which will be evaluated for competitive award of contracts.

4.3. Assistance to the Unemployed for Self-employment

Self-employment programs for the unemployed are intended to: (1) promote the development of small business, (2) enable the unemployed to gain reemployment through self employment, (3) create of new jobs, and (4) reduce unemployment compensation payments.

Self employment initiatives for unemployed persons have been operating in Europe since 1979. Recently, experimental evaluations have been conducted in the United States. Seventeen countries belonging to the Organization for Economic Cooperation and Development (OECD) have programs patterned after either the French model which grants a lump sum to the unemployed who plan to become self employed, or the British model which gives a series of periodic support payments during the start-up phase of self employment. The British model amounts to a waiver of the work search requirements for continued receipt of periodic unemployment compensation payments. American experiments recently tested the French model in Washington State and the British model in Massachusetts. The French model is used in Poland and the British model is used in Hungary. In 1990 Hungary began what amounted to a French lump sum type program, it was four years interest payment on loans with interest at 40% per annum, it was quickly eliminated as too costly in favor of the periodic payments model.

The extent of using self employment programs for unemployed persons has varied throughout Europe. In 1989 over 120,000 people were involved in such programs in Britain, while the average in Luxembourg is less than 100 per year. Findings from the European experience and the American experiments is useful when considering changes in the Polish program.

⁶Background information on the European experience with and the American experiments in self employment for unemployed persons can be found in Wandner (1992).

⁷The French model is followed in Luxembourg, Norway, Portugal, Spain, and Sweden, while the British model is used in Australia, Belgium, Canada, Denmark, Finland, Greece, Ireland, Italy, the Netherlands, and Germany.

A main finding is that among those helped to gain self employment, continued self employment is most likely to be maintained by middle aged males with backgrounds as professional, managerial, or technical experts who had a steady earnings history prior to their dismissal. The most popular industry for the newly self employed is services which attracted over half of the self employed. Retail trade attracted about 20 percent and manufacturing less than 15 percent of the newly self employed.

Self employment assistance for the unemployed may be justified on grounds of market failure in financing. If the problem is obtaining capital then a lump sum grant like the French model appears best, if the problem is liquidity then a series of periodic payments like the British model would be best.

Clearly, if the main aim is continued self employment then the program should be targeted to those most likely to succeed: middle aged males with backgrounds as professional, managerial, or technical experts who had a steady earnings history prior to their dismissal. However, it should be noted that the problem of financial market failure is probably less severe for this group who may have a good chance of obtaining financing through regular channels. That is to say, a subsidy to this group may have a relatively small social dividend because they would have begun self employment anyway. Furthermore, this group is least likely to have long durations of unemployment compensation receipt.

Design of the program also depends on secondary aims. It may be the case that in addition to fostering self employment, the program is also intended to do other things like: supporting businesses needed in an area, reducing unemployment compensation payments, or assisting disadvantaged groups. If this is true, services might be targeted to these aims. In practice targeting of self employment may be difficult because the process of self selection which naturally occurs in administering a well designed program, yields a group with good self employment prospects independent of the program. Based on previous experience, self employment appears to be a reasonable option for less than 5 percent of unemployment compensation recipients.

An example from the Washington State experiment illustrates how the number of unemployed persons eligible for self employment assistance rapidly dwindles. During 1989 and 1990, 44,456 persons were invited to apply for self employment assistance in Washington State. Only 3,160 actually attended a required introductory seminar, with 1,936 filing a self employment application of which 1,506 were judged acceptable. In the end only 60 percent of those offered assistance actually started their own enterprise, a number which implied voluntary participation by about 2 percent of those originally invited.

The initial eligibility conditions for participation in the Washington experiment were: (1) include persons filing new unemployment insurance claims--self employment could relieve the system from benefit payouts, (2) exclude persons with immediate job prospects--those awaiting recall to their previous employer, members of unions with full referral hiring halls, and (3) exclude very young persons with little knowledge of the world of work--those

under 18 years of age. Those satisfying these eligibility criteria were invited to attend an informational seminar about the program. At the seminar they were told that to receive a business start-up grant they: (1) must attend a set of four business training modules--covering business feasibility, marketing, finance and accounting, and organization and management, (2) may join an available entrepreneurs club--a type of counseling and support group, and (3) must attain four additional self employment milestones. The milestones were to develop an acceptable business plan, to set up a business bank account, to satisfy all state and federal licensing requirements, and obtain adequate financing.

Detail about the Washington experiment is offered to emphasize the targeting and screening necessary to operate a viable program for self employment. The budget for all active labor market support programs in Poland is very limited, and self employment is only one of the several programs. To illustrate the perils of lax eligibility standards, consider the experience of Hungary. In January 1990 a new program of self employment loan interest subsidies was instituted. Because of the high inflation and interest rates and the four year term of the full interest subsidy the program amounted to grants. Few eligibility restrictions were imposed and the application rate was overwhelming. The program budget was exhausted within 3 months and the program was suspended in March of 1990. The 1991 employment law in Hungary instituted a greatly restricted self employment program which continues to operate. The new Hungarian program is available only to unemployment compensation recipients. It works like the British system, offering a work search waiver with continued periodic unemployment compensation payments which may be extended for an additional six months beyond the basic one year eligibility if self employment continues. Support may also include reimbursement of up to 50 percent of the cost of professional entrepreneurial counseling services, and 50 percent of the cost of any training courses required for engaging in the entrepreneurial activity. A little used provision allows for payment of up to 50 percent of one year's premium on loan insurance for funds borrowed to start the enterprise.

Self employment assistance should be available only to persons eligible for unemployment compensation. This will limit the offers to people who have significant recent labor market experience, and automatically create a mechanism for reducing the number of persons receiving unemployment benefits.

A mechanism to give counseling support and training in the business skills required to successfully start and operate a small business should be included. Training should include instruction in how to develop a quality business plan, how to establish a reliable accounting system, and practical methods of marketing and management. The counseling support should be available for at least two years after the business start-up. The training may be organized and provided by the national system of labor offices, or it may be provided by external organizations with the cost subsidized in whole or in part by the labor fund. A pilot project of this type was recently completed in Poland under World Bank employment project Terms of Reference 10. That project also further developed the use of World Bank financed Enterprise Development Funds which make small loans in Poland.

Self employment is likely to be successful for only a small portion of the unemployed. To reduce the burden on the unemployment compensation system, the program should be targeted to those eligible for benefits. The program should not be offered to persons who have immediate reemployment prospects. To help those best suited there should be a natural series of screens which will yield the best candidates. The screens should include: (1) voluntary attendance at a seminar explaining the details of the self employment program, (2) completion of short entrepreneur training courses in subjects like bookkeeping, management, and marketing (or demonstration of competence), (3) preparation of an acceptable business plan, (4) setting up a special bank account for the business which is separate from personal bank accounts, (5) obtaining all necessary permits and licenses to operate the proposed business, and (6) securing adequate financing to supplement the small business start-up assistance.

Self-employment initiatives might involve the commercial banking industry which has experience evaluating business plans. Assistance provided may be either loans, interest subsidies, or loan guarantees (or grants). The prime advantages of collaboration with the banks is to use bank experience in evaluating business plans and collecting installments for loan repayment. Unemployed persons who are candidates for self employment should be selected by the local labor offices and referred to banks for loan application only after they have successfully completed business training, received necessary government permits to conduct business, and their business plan has been reviewed for completeness. Naturally, the standards for granting a loan to persons applying through the self employment programs would be different from regular commercial loan requirements, but the business plan must still be workable and the prospect for enterprise survival should be good.

Consideration should also be given to establishing target demographic groups at the national level, and having the province or local labor offices establish target business activities required to support the economy or provide needed services locally, so that small business start up assistance can be targeted to persons and activities which would most greatly benefit local economies.

4.4. Job Creation Loans and Grants

The aims of Job Creation loans and grants are: (1) promoting reemployment through creation of new jobs, (2) supporting the expansion of local businesses, (3) promoting strategic industries, and (4) reducing unemployment compensation payments.

The basic theoretical argument for making government subsidized loans to existing firms for investment which will create new job opportunities is fundamentally different from that for self-employment loans. Self-employment loans to the unemployed might be sponsored and funded by the government because there is a failure in the financial lending market which would tend to reject applications from the high risk group of unemployed individuals. For the case of existing businesses, if an investment opportunity is a good project which is likely to yield a reliable profit, then financing should be available through

commercial lending from banks or other standard financial avenues. Such investments would likely take place in the absence of support from the Labor Fund, the investments would not have an impact on employment. Use of public funds to support these investments would yield no new employment impact

To target public expenditures to activities which generate truly new employment opportunities it is proper to tie loans to the hiring of persons who are particularly hard to reemploy. At a minimum these loans should help reduce the number of beneficiaries of the unemployment compensation system. There may also be an "infant industry" argument in favor of such loans. The loans may be used to support development of business activities which are considered to be fundamental to the economic expansion of strategic sectors. Loan money directed in this way may yield significant second and third order employment effects.

Regarding workers to be hired as a result of Loans to Employers for Job Creation, the pool of candidates should be limited to persons who are eligible for unemployment compensation benefits. In some areas it may be reasonable to further restrict the pool of job eligible persons in various ways; for example target groups may be: unemployed persons who have been registered with the placement service and seeking a job for at least six months, physically disabled persons, or persons who have completed supported retraining.

It may also be wise to include legal provisions which encourage targeting of loans to sectors considered to be necessary for the development of other businesses and employment opportunities in the area.

4.5. Public Service Employment and Public Works

Public service employment and public works are intended to: (1) reduce long-term unemployment, (2) develop local infrastructure to support creation of new jobs, (3) provide workers with new skills, and (4) promote reemployment by ensuring readiness to start work.

There are four main reasons for government to undertake direct job creation efforts they are:

Countercyclical Job Creation - is a responsive tool of macroeconomic demand management policy since income and spending can be expanded quickly in regions and times of high unemployment.

Structural Targeting - Since funding is project by project it may be targeted to deal with specific geographic pockets of structural unemployment.

Employability Development - Among the valuable outcomes is the exposure to the responsibilities of the world of work it provides to inexperienced labor market participants. This outcome is listed as Work Experience in the above section on training.

Adding to Social Output - In the United States, public works projects operated under the 1973 Comprehensive Employment and Training Act (CETA) were found often to substitute for local tax support since support payments were made directly to workers in government agencies. However, if properly managed, projects can provide the resources for providing additional public services or goods.

Direct job creation is a flexible and quick means of providing income to unemployed individuals, it helps to maintain aggregate demand, and has the potential side effect of contributing to infrastructure which will support future job creation. While such programs have not been used for direct job creation in the United States since the Comprehensive Employment and Training Act (CETA) expired in the 1970s, it is now an important means of economic revival and establishing work places in the former East Germany.

In Germany, Public Works is seen as serving "a bridge function: to create temporary jobs, sustain the transition process, and promote creation of jobs in the regular labor market." By providing income support to individuals, maintaining aggregate spending levels and economic activity, and preventing the deterioration of work place behavior skills, the Germans view Public works as a bridge to developing long term employment opportunities by improving conditions for business investment. A special emphasis of German Public Works projects is to clean up sites which had been contaminated by previous industrial activity, so as to make available locations for new enterprises.

In Poland, a potentially valuable feature of the original Employment Act of 1991 was that for the first few months after a Public Works project was completed operators of Public Works projects would be reimbursed for part of the wages paid to persons kept on as regular employees. Unfortunately this feature of the law has been deleted. This type of positive incentive is a natural mechanism for Public Works to support expansion of non-subsidized jobs. Indeed this incentive may be even more important in the case of Intervention Works in Poland where projects are operated by private business enterprises. Indeed, Disney et al (1992), report that the transition to regular employment was more likely to be made by Public Works employees if their project was run by a private enterprise rather than a government agency.

If reemployment in a regular non-subsidized job is a more important aim than contributing to government production, then distinguishing between projects operated by governmental agencies and private employers should be considered. Regardless of whether a direct job creation program is operated by government or private enterprise, there will always be a question about the true net job creation impact. The experience with public service employment in the United States under CETA revealed that existing and potential

⁸See for example Spitznagel (1992).

⁹Spitznagel (1992), p. 12.

new jobs were significantly reduced because local governments used federal CETA money largely to replace local spending. Together with the results from Germany, this suggests that a greater emphasis might be placed on private sector employers.

There should be a more focused targeting of job placements for persons with barriers to employment. For individuals the lasting effect of these projects is work experience which may translate into regular non-subsidized employment. Target groups might include: unemployed persons who have been registered with the placement service and seeking a job for at least six months, physically disabled persons, and persons with chemical or alcohol abuse or criminal histories.

Targeting of projects to regions with high unemployment. It might be useful to specify threshold rates of unemployment that trigger regions for projects. More funding might be directed to private as opposed to public sector employers since projects operated by private enterprise probably have greater success in promoting regular employment.

There should be improved incentives for retaining targeted workers hired for the project by enterprises which operate funded projects. For example, it may be that 25 percent of wages are paid for the first 6 months and 50 percent of wages are paid for the second 6 months up to a limit of 50 percent of the average wage in 6 industries nationally. A two year incentive might even be considered. Such an incentive could be a powerful aid to help targeted workers transition to regular employment.

Since a primary function of direct job creation is income transfer, a maximum should be set on the proportion of a project budget which can be spent on materials and equipment. For example, a guideline might be set suggesting that a maximum of 30 percent of expenditures be made on equipment and materials leaving at least 70 percent for wage payments to workers.

4.6 Wage Subsidies

The aims of wage subsidies are to: (1) stimulate job demand, (2) secure on-the-job training, and (3) increase employment of target groups.

Wage subsidies in Hungary are targeted to the long-term unemployed, while in Poland they are targeted to recent graduates. A brief review of studies of wage subsidies may be enlightening. At the outset it is useful to distinguish a wage subsidy--which is paid to an employer, from a wage supplement--which is paid to a worker. There is much less evidence

¹⁰Cook et al (1985, p. 53), identifies four major categories of job displacement: transfers of existing employees to public works, layoff of existing workers for rehire on public works, reduced contracting of projects to private enterprise, and reduced future hiring within government agencies.

about the latter, but results from the wage subsidy suggest a supplement may be more effective.

Four trials of wage subsidies in the United States are briefly mentioned. Two operated as government programs run through the tax system and two worked as voucher experiments. The New Jobs Tax Credit and the Targeted Jobs Tax Credit allowed employers to reduce tax payments by a fraction of the amount paid to workers hired under the programs. Hamermesh and Rees (1984, p. 99) say that New Jobs Tax Credits were taken for one-third of all the new jobs created during the period it was in effect, but Perloff and Wachter (1979) estimate that it resulted in just 3 percent more jobs than would have been created without the program. The Targeted Jobs Tax Credit (TJTC) was intended to increase employment among certain targeted disadvantaged groups. Hollenbeck and Wilke (1991) find that the TJTC increased labor market success of "nonwhite male youth, but is stigmatizing for eligible individuals from other race/sex groups." This finding that a wage subsidy acts as a stigma carries through to the experimental studies.

A targeted wage subsidy was operated as an experiment in 1980-81 by the U.S. Department of Labor in Dayton, Ohio. Burtless (1985, p. 106) reported "the results show conclusively that workers known to be eligible for targeted wage subsidies were significantly less likely to find jobs than were otherwise identical workers whose eligibility for subsidies was not advertised." Burtless (1985, p. 105) "speculates that the vouchers had a stigmatizing effect and provided a screening device with which employers discriminated against economically disadvantaged workers."

Another experiment testing an intervention which amounted to a wage subsidy was not restricted to economically disadvantaged workers, but also may have had a stigmatizing affect. Woodbury and Spiegelman (1987) report that for the Illinois Reemployment Bonus Experiment, cash bonuses paid directly to persons who gain reemployment have a powerful affect on reducing the duration of unemployment, while if the cash payment is made to employers the effect is almost nil. Employers may be reluctant to hire workers who present a voucher for payment from the state because it signals that the worker may have "hidden" characteristics which hinder their finding employment without a state subsidy.

The advantages of targeting services so as to avoid aiding persons who might gain reemployment on their own has been mentioned above. The programs in Hungary and Poland are targeted to the long term unemployed and to recent graduates respectively. The wage subsidy is a labor demand stimulus, but apparently regardless of the form of delivery of the subsidy to employers, it has a stigmatizing affect on workers. An obvious alternative is the wage supplement which is paid directly to workers. This type of program has even been recommended to help welfare recipients, who might face the most severe stigma, gain reemployment.

¹¹See for example Lerman (1985).

New entrants to the labor market and those who recently left other jobs frequently delay their time of reemployment because they over estimate their value to potential employers. That is, they set their reservation wages unrealistically high. While both the new entrant and the job leaver may bring general skills, neither brings firm specific skills needed in their new place of work. A wage supplement program where the payment is made directly to the worker during the initial period of employment, perhaps one year, may help shorten unemployment durations by inducing job searchers to lower their reservation wages. During the period of wage supplement, workers will gain job specific skills thereby increasing their value to the firm and qualifying them for any available wage increases. A wage supplement paid directly to the worker removes the state from employee-employer interactions and greatly reduces the chance of a stigma affecting an employers hiring decision. Ideally, by the time the wage supplement expires a worker's earnings would have risen within the firm.

It may be useful to have the wage supplement decrease somewhat as the length of reemployment grows. This will smooth the earnings path since the supplement would decline as earnings on the job increased. For example, if a supplement were to be paid for one year, it might be cut in half after six months.

4.7 Other Active Labor Programs

As mentioned above work sharing and early retirement programs are now being phased out in Hungary. These were aggressive employment policy measures at the beginning of the economic transition period. They have been revealed, partly through the performance indicators system, to be very costly and declining in applicability.

In addition to the above programs which operate on a largely decentralized basis from province to province, there exist centralized funds for centrally directed employment measures. In Hungary these have included the German type "employment companies," which have occasionally been set up in primary industrial facilities of former state monopolies. These temporary entities act as administrators of employment policy for former workers of the enterprise by arranging for unemployment compensation and active labor programs. There are also crisis intervention funds for special projects in particularly depressed regions.

Hungary also has a new system of national retraining centers which are situated at about ten locations around the country. These centers are specialists in vocational retraining and have been developed with the assistance of World Bank consultants and other bilateral financing. As mentioned above, Poland has a new network of lenders financed by the World Bank that will make loans and provide assistance to entrepreneurs who which to start-up their

¹²The reservation wage is the minimum wage rate that a worker will accept to begin a new job.

own enterprise. It is likely that targeted and specialized active labor policy will supplement the main decentralized programs for the foreseeable future.

5. Passive Labor Support

Unemployment insurance may be designed to satisfy four goals: (1) Temporary partial wage replacement during periods of involuntary unemployment to reduce hardship; (2) Limit economic downturns by supporting consumer purchasing power in the community and nation; (3) Minimize the duration of unemployment by promoting rapid and suitable reemployment; and (4) Encourage stabilization of employment within enterprises.

The systems in Hungary and Poland focus on the first two of these aims. They do not directly pursue the third and fourth aims listed above. As such the systems in Hungary and Poland should properly be regarded as unemployment compensation rather than unemployment insurance. Taxes are uniform across employers and workers, the rate does not depend on experience. The lack of reemployment incentives make the system operate as a dole.

Descriptions of unemployment compensation systems in Hungary and Poland are given in Table 5. Hungary provides both regular benefits for those with relatively recent job attachment and a means tested benefit for long term unemployed. The latter is drawn from the same financing pool as the former, a fund called the Solidarity Fund, but it is administered by the local self-governments not by the system of labor centers. In Poland there is only one passive benefit paid from the Labor Fund, means tested general assistance is paid from a social welfare fund and by local governments.

In both countries the maximum entitled duration of unemployment compensation 12 months, in Poland high unemployment areas may pay up to 18 months duration. The duration was two years under the 1991 employment law in Hungary, but it was reduced in 1993 for financial reasons. Unemployment assistance was added in Hungary in 1995.

Between the maximum and minimum, the basic benefit in Hungary is wage related, with a 75% wage replacement ratio during the first six months and 60% wage replacement during the second six months. The benefit in Poland was wage related prior to 1993, but was changed to a flat rate benefit. The current monthly benefit in Poland is set at one-third the national average wage.

Changes in these systems have resulted mainly from financial pressures, the systems were initially too generous for the financing levels which were politically acceptable. In Hungary the dramatic reduction in potential benefit duration turned around the financial

¹³The Hungarian system is explained in Micklewright and Nagy (1994) and rules for the Polish system are summarized in O'Leary and Targowski (1993).

picture. Currently in Hungary employers contribute 3.9% of gross payrolls and workers 1.5%, this is down from 5 and 2 percent respectively after the reforms were imposed in 1993. Nonetheless, these taxes have overfunded benefits and there is now speculation about the uses for these funds and further tax reform. This is despite the large black labor market which does not contribute to the solidarity fund.

In Poland benefits are financed from a 3% employer tax on total payrolls and contributions from the central governments general fund. In 1995 revenues from the employer tax covered only about 40% of benefit charges. The burden of paying the passive benefit in Poland strains the national government budget and limits resources available for active labor programs.

Reforms are under consideration in Poland which would give the system more of an insurance character. Possible reforms include:

Separate the financing of the passive benefits and active labor programs (ALPs), with benefits paid from a special tax and ALPs operated as discretionary programs which are paid for out of general governmental revenues.

Distinguish unemployment benefits from social welfare. For example, if social policy calls for maternity benefits, they should be paid from the social welfare fund not from the UI fund. Also, eligibility for UI benefits should not be based on the current income of the spouse or other household members, they are rights established by work history.

A required waiting period (perhaps two weeks long) may be included at the beginning of the period of compensable unemployment. This acts as a kind of co-payment by the benefit recipient. It may greatly reduce benefit payments, and reduces compensation when need is the least and other sources of income are less likely to be exhausted--at the beginning of a spell of unemployment. Introduction of a waiting period will not reduce the adequacy of the unemployment support system.

A financially independent system with experience rated tax rates may be adopted. This principle is applied to contributions for workers injury compensation payments in Poland.

To reduce the problem of "black labor," i.e. unreported earnings by UI beneficiaries, a "partial benefits" schedule to encourage part time work with reporting of earnings by the worker should be adopted.

If these and some other proposed changes may result in a Polish unemployment insurance system which is reliable, self-regulating, self-financing, and actuarially sound system providing adequate income replacement for entitled beneficiaries.

6. Performance Management of Employment Policy

The systems developed for monitoring the performance of active labor programs in Hungary and Poland are briefly reviewed in this section. The systems being introduced are examples of results oriented public management. In both countries, performance indicators have been specified to measure the success of active labor programs. This information provides an important basis for program management and planning. A performance measurement system has been functioning in Hungary since the beginning of 1994. Nationwide training in methods for performance management was conducted in Poland during November, 1995. The system is scheduled to be implemented in Poland in 1997.

The systems were designed to support decentralized decision making while allowing program managers at the national level to unobtrusively observe effectiveness. The systems being implemented allow a standardized assessment of program performance both across administrative districts and across programs. Measures of performance, called performance indicators, were carefully selected so as to minimize adverse incentives. The systems are intended to promote superior performance through positive incentives, and to help identify and address poor performance through technical assistance or sanctions. Lists of performance indicators adopted for active labor programs in Hungary and Poland are listed in Tables 6 and 7 respectively.

An important distinction of the employment policy experience in Hungary and Poland is that the collection of labor market support programs was largely adopted as a unified set rather than in the gradual piece-meal fashion experienced in the economically developed nations. Furthermore, since Hungary and Poland each operate all labor market programs through a single agency, the process of client intake and referral to programs is conducted in a relatively coordinated fashion. The unified nature of active labor programs is further advanced by the information and performance management systems developed.

Since regions within a country vary in their economic strength, before using data on program performance in deciding budget allocation it is important to account for variations in the difficulty of finding reemployment. Consequently, an adjustment methodology for performance indicators is under development in Hungary and has been recommended in Poland. In addition to accounting for regional differences in reemployment prospects, the adjustment methodology may also provide an easy way to discourage "creaming" and ensure appropriate targeting of reemployment services.

¹⁴A fuller review of performance indicators for active labor programs in Hungary and Poland is given in O'Leary (1995).

¹⁵Such systems are established in the U.S. and in Europe. Auer (1996) reviews performance management systems for employment programs in 15 countries in the European Union.

Creaming refers to the practice of program administrators selecting the most qualified candidates for program participation so as to increase measured program success. The analogy is to milk where the richest part, the cream, floats to the top and can be skimmed off. Creaming is an issue in operating labor market programs because if only the most able people get reemployment assistance, then the benefit to society of the programs is not as great as it might be otherwise. Highly qualified program entrants have a good chance of becoming reemployed even without the services offered in the program, while for less qualified applicants the program services might be the only realistic path to employment.

An appropriately designed adjustment methodology is an essential component of a performance management system. In addition to providing a level playing field for comparison of inter-regional performance, and a means for discouraging creaming by program managers, an adjustment methodology can be used to encourage targeting of services to those who have particular difficulty in gaining reemployment, such as: the long term unemployed, those with low levels of formal education, and persons with physical handicaps.

Among the evaluation methods available, which also include experimental and quasi-experimental approaches, the monitoring approach using performance indicators was chosen in Hungary and Poland as being particularly practical at the early stage of labor program development. The governments in these countries were interested in building "evaluation and planning models" for the management of active labor programs.

While they are valuable for program management, performance indicators systems are less than fully informative for policy decisions about program design. The performance indicators systems yield only gross outcome estimates like the rate of reemployment, not net impact estimates like the differential likelihood of reemployment for program participants compared to otherwise similar non-participants. For example, performance monitoring may indicate that 56 percent of retraining participants get reemployed. This is useful information for planning, budgeting, and managing programs. However, policy decisions require net impact estimates. That is, deciding about whether to continue, curtail, or expand a program requires knowledge about how much better or worse the labor market success of program participants is compared to otherwise similar persons who do not enter a program. This is the essential calculus of cost-benefit analysis for social investment.

A beneficial by product of developing performance indicators systems is that computerized management information systems were developed in the process. By organizing a variety of relevant information, these management information systems will provide an infrastructure and intellectual context for scientifically designed net impact analyses. Net impact analyses of active labor programs have been conducted in Hungary by

¹⁶O'Leary (1993) provides a simple example of how to develop and apply an adjustment methodology for active labor programs.

Godfrey, Lazar, and O'Leary (1993) and O'Leary (1995). A new initiative for a cross-country net impact analysis study in Hungary and Poland is now under way.

7. Directions for Change

Taken together the above comments suggest that the collection of labor market support programs should be operated in a coordinated fashion with the main point of entry for all services being the Placement Service.

Employment laws should also explicitly state goals for each of the separate labor market programs. Presumably the goals differ across programs, otherwise there would be no need for several different programs.

Performance indicators of program success should be monitored regularly and reported on at least annually. Budget allocation of money for active labor market programs should be based in part on program success as measured by performance indicators.

Unemployment Insurance (UI) should be separated from active labor market programs (ALPs). UI benefits should be an entitlement for persons with a work history and continuing labor force attachment--it is a passive labor market program. UI should be paid from special tax revenues which are held in a UI trust fund. UI is the first line of defense against unemployment and the payment of benefits should be guaranteed by a promise to make loans from the government's general revenues if needed. ALPs should be operated as discretionary programs which are paid for out of general governmental revenues with the design and funding level changed periodically depending on economic and political conditions.

The final general recommendation is to target active labor market programs (ALPS) to persons who have the greatest difficulty in gaining reemployment. Targeting programs in this way will raise the social dividend of payments from public funds, and reduce the likelihood of government spending to help persons who could gain reemployment without state assistance.

Having suggested what might best be done to improve some aspects of employment policy, now a brief consideration of what is likely to happen.

In Hungary the mix of employment programs is gradually being weeded and refined. There is a wealth of performance management information and a growing number of empirical studies of what works in employment policy there. Also, as registered unemployment gradually declines and revenues from the employer and worker taxes for unemployment compensation continue to accumulate, it is likely that an increasing share of active labor policies will be funded by these special payroll taxes rather than from government general revenues. This approach, taken in the past by Sweden, to finance of policy is a shortsighted and may backfire. Adequate reserves should be built to ensure

payment of unemployment compensation during the inevitable business cycles which will occur as the market economy further develops, and to minimize procyclical financing effects on employers and workers. Experience rating of tax contributions should also be considered. Finance of active labor policy should be left to the discretion of political decision makers. It is difficult to justify charging one employer to improve the quality of the competitors workforce.

In Poland the great and surprising increase in the burden of paying passive support to unemployed workers is dominating employment policy and removing flexibility in policy decision making. The unemployment system lacks reemployment incentives, it includes excessive social welfare elements, and absorbs all but fifteen percent of all Labor Fund money. Current initiatives to introduce performance management of active labor programs and to conduct net impact evaluations may yield information for policy making which cannot be funded. The hopeful prospect in Poland is the rapid rate of growth in gross domestic product, Poland leads Europe in this measure. Continued significant growth may eventually provide the stability and resources to refine a rich and promising employment policy which has matured in a very difficult environment.

Table 1
Labor Market and Economic Conditions, 1989-95¹

Hungary

	1989	1990	1991	1992	1993	1994	1995
Population	10.398	10.365	10.345	10.324	10.294	10.261	10.230
Labor Force	5.102	4.962	4.502	4.539	4.346	4.198	4.095
Employment	5.078	4.916	4.306	4.096	3.827	3.752	3.679
UnRate	0.5	0.9	4.7	12.0	14.9	13.1	12.0
GDP Growth	-	-4.0	-11.9	-3.1	-0.6	2.9	1.5

Poland

	1989	1990	1991	1992	1993	1994	1995
Population	37.963	38.119	38.245	38.365	38.459	38.544	38.609
Labor Force	17.002	16.871	17.010	17.032	17.067	17.743	17.580
Employment	17.389	16.145	15.443	15.011	14.761	14.924	15.100
UnRate	0.0	6.1	11.4	13.6	16.4	16.0	14.9
GDP Growth	0.2	-11.6	-7.0	2.6	3.8	5.0	7.0

¹Source: Employment Observatory: Central & Eastern Europe, No. 7, May 1995. 1995 and corrected data from the Hungarian Central Statistical Office, the Hungarian National Labor Center, and the Polish National Labor Office. Population, labor force, and employment figures are in millions. The unemployment rate is the percent of the civilian labor force registered as seeking work with the public employment service, and the GDP growth rate is the percentage change in real gross domestic product at constant prices.

Table 2

Active Labor Programs Operating in Hungary and Poland

Active Labor Program	Hungary	Poland
Placement Service	Yes	Yes
Retraining	Yes	Yes
Self Employment Assistance	Yes	Yes
Wage Subsidy for Hiring	Long Term Unemployed	Recent Graduates
Public Service Employment ¹	Yes	Yes
Job Creation Investments	Yes	Yes
Work Sharing	Yes	No
Early Retirement Subsidy	Yes	No

¹Poland also has Intervention Works projects run by private sector employers which operate like a wage subsidy program.

Table 3. Active Labor Programs in Hungary

RETRAINING - Occupational skill retraining may be provided to persons who are either unemployed, expected to become unemployed, or currently involved in public works. Unemployed recent school leavers may also qualify. Training support may include a supplement to earnings or a benefit in lieu of earnings equal to 110 percent of the unemployment compensation otherwise payable, plus reimbursement of direct costs.

SELF EMPLOYMENT ASSISTANCE - Self employment assistance is possible for persons who are eligible for unemployment compensation. The support may include up to 6 monthly payments of unemployment compensation beyond the basic one year eligibility as soon as the unemployed person starts his business. Support may also include reimbursement of up to half the cost of professional entrepreneurial counseling services, and half the cost of training courses required for engaging in the entrepreneurial activity. Up to half the premium on loan insurance for funds borrowed to start the enterprise may be paid for one year.

WAGE SUBSIDY FOR HIRING LONG TERM UNEMPLOYED - A wage subsidy of up to 50 percent is possible for up to one year. The payment is made directly to the employer and applies to total labor costs for hiring persons unemployed for more than 6 months (3 months for school leavers), provided the employer has not laid off anyone involved in the same line of work in the previous 6 months and after the assistance has ended, he further employs the unemployed persons at least as long as he received assistance.

PUBLIC WORKS - Workers hired for public maintenance and infrastructure projects or public social services may have direct costs of employment (wages, overhead, tools, clothes, and transportation) subsidized by up to 70 percent from the Employment Fund provided that the employer does not receive any net income as a result of the activity.

JOB CREATION INVESTMENTS - Earlier it was possible to subsidize some part of the investment costs from the Employment Fund in the form of interest free loans or grants requiring no repayment. The employer was required to provide a minimum of three years employment in newly created jobs. This form of assistance was stopped at the start of 1996.

PART-TIME EMPLOYMENT (WORK SHARING) - When due to a temporary decrease in production an enterprise employs all or some of its full-time workers on a part-time basis to avoid layoffs, and hours are reduced by at least one-third of the full working time, up to 50 percent of the personal basic wages lost due to the hours reduction may be reimbursed to employers who pay their workers for the lost hours of work. Such payment may be made for up to one year provided the employer does not resort to a layoff, in which case the amount of any aid granted must be repaid.

EARLY RETIREMENT SUBSIDY - Up to half the cost of granting early retirement may be reimbursed to an employer if at least one-quarter of the average staff of the previous year or at least 300 workers are released, and no profit or a loss was realized during the previous year. The full cost is paid by the Employment Fund if the enterprise goes out of existence or is liquidated without a successor in title. This form of assistance was stopped at the start of 1996.

Table 4. Active Labor Programs in Poland

RETRAINING - Retraining may not exceed 12 months duration. It should be targeted to areas of skill shortages. Stipends up to 115 percent of the unemployment benefit may be paid. If a person leaves before completing a course of study, they must reimburse the costs of training.

LOANS TO THE UNEMPLOYED FOR SELF-EMPLOYMENT - Loans may not exceed twenty times the national average monthly pay. If self employment is continued for 24 months, 50 percent of the loan amount may be forgiven. The loan must be repaid immediately if the agreed upon business plan is not pursued. Loan contracts are made at prevailing interest rates.

WAGE SUBSIDIES FOR HIRING RECENT GRADUATES - Establishments that hire recent graduates who have been unemployed at least three months may be exempt for up to 12 months from making a payroll tax contribution to the Labor Fund. Furthermore, establishments may receive a subsidy equal to the unemployment compensation and social insurance contribution which might otherwise have been paid.

PUBLIC WORKS - Wage and social insurance costs may be paid for up to six months from the Labor Fund at a rate of up to 75 percent of national average pay. Projects should be infrastructure investments, and may be operated by municipal authorities or by local representatives of the national government. Projects may not compete with any existing business, and workers should be recruited through the Local Labor Offices. Areas with the highest unemployment rates have priority for Public Works projects.

INTERVENTION WORKS - Wage and social insurance costs may be paid for up to six months from the Labor Fund for an amount up to the level of unemployment compensation otherwise payable. Projects may not compete with private companies, and may be undertaken only by companies which during the most recent six months did not lay off more than 10 percent of their workers. Wages and social insurance costs for workers retained beyond the first six months may be reimbursed for the subsequent six months up to a total of 150% of the national average monthly wage.

LOANS TO EMPLOYERS FOR JOB CREATION - Loans to existing businesses to organize new places for employment which must last at least 24 months. Loan are made at prevailing interest rates. Loan recipients must have had stable employment levels in recent years, have a specific plan for use of the loan, specify the exact number of new job places to be created, fill the job places from the unemployment register, repay the loan on schedule, and immediately repay the loan if the agreed on job creation investment is not pursued.

Table 5. Passive Labor Programs in Hungary and Poland

UNEMPLOYMENT COMPENSATION IN HUNGARY - Eligibility depends on work history during the previous four years. The maximum entitled duration of benefits is 12 months. The monthly benefit amount depends on previous earnings. During the first six months the benefit is 75% of prior earnings, during the second six months the benefit is 60% of prior earnings. The unemployment benefit is paid for by a 3.9% tax which employers pay on total payrolls, and a 1.5% tax paid by employees. Before 1996 there was also an unemployment benefit equal to monthly unemployment assistance amount for recent school graduates. In 1995 there were an average of 185,000 unemployment compensation and recent school graduates beneficiaries. UC is administered by the system of labor centers.

UNEMPLOYMENT ASSISTANCE IN HUNGARY - A monthly benefit available to unemployed exhaustees of regular unemployment compensation. Eligibility also depends on a means test. The maximum entitled duration is 24 months. The monthly benefit amount is uniform; in June 1996 the amount stood at 7780 HUF per month. UA benefits are financed from general governmental revenues. Beneficiaries who exhaust eligibility for UA may requalify for up to 3 months of regular unemployment compensation (UC) after six months work, if the UC is exhausted, may again become entitled to a means tested two years of UA benefits. UA is administered by local government offices, not by labor centers.

UNEMPLOYMENT COMPENSATION IN POLAND - Eligibility depends on work history in the previous year, to qualify a worker must have had a minimum of 180 days of work. There is also a means test for eligibility: monthly income must be lower than 50% of national minimum wage. Furthermore, weekly hours of work must be less than 20 hours. The maximum entitled duration of benefits is 12 months. In local labor markets where the unemployment rate equals or exceeds 1.5 times the national average unemployment rate, the maximum entitled duration of benefits is 18 months. The monthly benefit amount is fixed and uniform for all recipients. The level of the monthly benefit is reviewed each calendar quarter by the Minister of Labor and Social Policy and may be revised. In June of 1996 the monthly benefit stood at about 33% of the national average monthly wage. There is also a child dependents allowance equal to about 10% extra per child. The unemployment benefit is paid for with money from the Labor Fund. The Labor Fund is financed from two sources (1) 35% of the Labor Fund in 1995 came from a 3% tax which employers pay on total payrolls, and (2) 65% of the Labor Fund came from general revenues of the state budget. In 1995 about 85% of the Labor Fund was spent on unemployment compensation (UC) and social insurance taxes for the unemployed, the remainder was spent on active labor programs. Since March 1996 recent school graduates are not eligible for unemployment compensation in the first 12 months after leaving school. Unemployment compensation beneficiaries also retain eligibility for national health insurance, this eligibility may be maintained even after exhausting benefits by continued monthly reporting as unemployed to the local labor office. In 1995 there were an average of about 1.3 million unemployment compensation beneficiaries per month. Since late 1995 the number of monthly beneficiaries steadily increased and reached a peak of 1.5 million per month in April 1996, the number has fallen gradually since. UC is administered by the system of labor offices.

Table 6. Performance Indicators for Active Labor Programs in Hungary

RETRAINING

Average cost per trainee employed at follow-up
Proportion of trainees who are employed at follow-up
Average cost per training program entrant
Average cost per trainee per hour of training
Proportion of entrants who successfully complete training courses
Proportion of employed trainees working in occupation of training at follow-up

SELF EMPLOYMENT ASSISTANCE

Average assistance per person still self-employed at follow-up
Proportion of persons still self employed at follow-up
Average subsidy per self-employed
Average monthly subsidy per self-employed
Average added employment resulting from self employment assistance at follow-up

WAGE SUBSIDY FOR HIRING LONG TERM UNEMPLOYED

Subsidy per worker in regular employment at follow-up
Proportion of subsidized workers who are in regular employment at follow-up
Proportion of subsidized workers retained by subsidized employer at follow-up
Average monthly cost of wage subsidy per subsidized employee
Average duration of subsidy per subsidized employee

PUBLIC WORKS

Average monthly subsidy per worker
Average monthly direct cost per worker
Average monthly gross earnings per worker
Proportion of Employment Fund subsidy within direct costs
Proportion of workers not subsidized by the Employment Fund

JOB CREATION INVESTMENTS

Average cost of subsidies per new job created
Proportion of placements still employed at follow-up
Among jobs promised the proportion actually created
Among jobs created the proportion filled by persons from target groups

WORK SHARING (PART-TIME EMPLOYMENT)

Average subsidy per person involved in work sharing
Average subsidy per job at risk
Average subsidy per job saved
Proportion of jobs at risk which are saved

EARLY RETIREMENT SUBSIDY

Average cost per person entering early retirement
Average monthly early retirement subsidy per person
Employment fund share of early retirement commitments made in the calendar year
Average months until regular retirement

Table 7. Performance Indicators for Labor Programs in Poland

RETRAINING

- Proportion of course completers employed at follow-up
- Average cost per course completer employed at follow-up
- Average cost per training program entrant
- Proportion of entrants completing training courses
- Average monthly earnings of course completers working at follow-up
- Proportion of employed course completers working in occupation of training at follow-up

LOANS TO THE UNEMPLOYED FOR SELF-EMPLOYMENT

- Proportion of persons still self-employed at follow-up
- Amount of money granted per person still self-employed at follow-up
- Average amount of money granted per loan
- Proportion of the maximum allowable amount of money given on the average loan
- Loan repayments received as a proportion loans given
- Additional persons hired per person still self-employed at follow-up

WAGE SUBSIDIES FOR HIRING RECENT GRADUATES

- Proportion of participants in regular jobs at follow-up
- Cost per participant in regular job at follow-up
- Average monthly cost of wage subsidy
- Average duration of subsidy as a proportion of maximum allowable duration
- Proportion of all registered unemployed graduates participating in the program
- Average monthly wage subsidy as a proportion of maximum allowable cost
- Average duration of subsidy per subsidized employee

PUBLIC WORKS

- Proportion of workers gaining regular employment
- Cost of subsidy per employee gaining regular employment
- Average cost of subsidy per employee
- Proportion of unemployed refusing to take part
- Proportion of maximum allowable money spent on the average project
- Fraction renewing eligibility for unemployment benefit

INTERVENTION WORKS

- Proportion of workers gaining regular employment
- Cost of subsidy per employee gaining regular employment
- Average cost of subsidy per employee
- Proportion of unemployed refusing to take part
- Proportion of maximum allowable money spent on the average project
- Fraction renewing eligibility for unemployment benefit

LOANS TO EMPLOYERS FOR JOB CREATION

- Loan amount per person employed at follow-up
- Average loan amount per new job place
- Average loan as a fraction of maximum allowable amount
- Loan repayments received as a proportion loans given
- Proportion of promised new job places actually created

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