Innovation in Planning Hungarian Labor Market Programs

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Since the beginning of 1990, when the process of privatization and economic reform began to accelerate in Hungary, unemployment has risen from 20,000 to over 700,000 persons in a labor force of about 4.8 million. To ease the pain associated with dislocation and maintain social stability the government has instituted unemployment insurance and a variety of active labor market programs (ALPs). The ALPs include nearly the full menu existing in industrialized nations: retraining, public service employment (PSE), wage subsidy for hiring long term unemployed, small business start-up assistance, job creation investments, work sharing, early retirement subsidy, and the job service. Spending on ALPs from general revenues is expected to exceed 16 billion Hungarian forints in 1993, but no reliable information is yet available on how well these programs work. This paper summarizes the important features of the Hungarian ALPs and reports on the system to assess the effectiveness of ALPs which is now being implemented in Hungary. The system being introduced in Hungary is an example of "reinventing government" in the sense of Osborne and Gaebler (1992). The paper lists performance indicators (PI) used for each program, and explains how they are used with administrative and follow-up data. The system of PI is designed to monitor performance while allowing decentralized decision making and avoiding adverse incentives. The system is designed to promote superior performance through positive incentives, and to help identify and correct poor performance through technical assistance and/or sanctions. The paper shows how the PI allow a standardized assessment of program performance across the 20 administrative districts in Hungary. An example is also given which shows how demographic data on clients and indicators of regional unemployment are used to adjust national standards for local conditions. Finally, the paper explains how information from the performance assessment is used in the annual planning and budget allocation process for Employment Fund programs.

Funding for work on this paper was provided by the Hungarian Ministry of Labor from a World Bank loan, the U.S. Department of Labor, and the Upjohn Institute. The paper is based on work done with the Hungarian Ministry of Labor, the Hungarian National Labor Center, and the labor administrations in the Hungarian counties of Borsod-Abauj-Zemplen, Hajdu-Bihar, and Somogy. Previous versions of this paper have been presented at seminars for the International Labor Office, the World Bank, the Upjohn Institute, the Western Economics Association, and the Hungarian Ministry of Labor. The author thanks participants in the previous seminars for their comments, solicit comments from readers of this version of the paper, and accept responsibility for any errors. At the Upjohn Institute, Rich Deibel provided research assistance, and Claire Vogelsong, Ellen Maloney, and Leslie Lance provided clerical assistance. Special thanks is due Dr. János Simkó of the Borsod County Labor Center in Miskolc, Hungary, without his efforts the development and implementation of the ideas and methods described in this paper would have been greatly delayed.
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1. Introduction

In August, 1990 the Upjohn Institute submitted to the Hungarian Ministry of Labor a comprehensive plan entitled "Evaluation Criteria and Planning Guidelines for Employment Fund Programs in the Republic of Hungary." This plan proposed a practical system for the coordinated assessment and planning of Employment Fund programs. Since that time the collection of programs for labor market support in Hungary and the relationship between the local employment centers, the county employment centers, and the Ministry of Labor has changed dramatically.

A new labor market organization has been established. It operates at three levels with 186 local employment centers, 20 county employment centers, and the National Labor Center. Prior to the new law the local and county employment centers were paid for with money from the local and county "self governments." Naturally, these self governments also controlled the activities of the labor centers with the Employment Fund programs being operated in an extremely decentralized way. The new employment act also added another decision making and supervisory level to the employment policy system. There have been established tri-partite labor market committees at the national and county levels. These committees have representatives from business, labor, and government, and are responsible for budget allocation and general supervision of the administration of labor market programs.

The plan presented in 1990 relied on a system for monitoring cost effectiveness of Employment Fund programs using a set of "effectiveness criteria." Currently, implementation of a revised system for assessment and planning based on the original Upjohn design is under way in Hungary with nationwide operations scheduled to begin in January, 1994. The system being developed is for active labor market programs paid for out of decentralized part of the new Employment Fund.

The first step in the process of revising the assessment and planning system was to revise the list of effectiveness measures to be monitored. For cultural and linguistic reasons it was agreed that the formulae for measuring program effectiveness would henceforth be referred to as "performance indicators" (PI). Among the evaluation methods available, which also include experimental and quasi-experimental approaches, the monitoring approach using PI was chosen as being particularly practical at the early stage of program development. The use of PI allows a standardized assessment of program performance across counties not afforded by other methods of evaluation. Furthermore, with the demographic data on clients available in the employment exchange registration system and some regional economic information, it will also be possible to design an adjustment methodology to adapt national standards to local conditions and provide incentives for directing services to special target groups.

Not only is comparison of program performance standardized using PI, it is also timely so that results may be used in the annual planning and budget allocation process. A beneficial side effect of the PI system is that a computerized management information system will be developed in the process. By organizing a variety of relevant information, this management information system will also provide a basis for unanticipated planning and management functions which can be adapted over time should the programs or the PI change. The management information system could also support even more detailed monitoring of administrative compliance in program administration. The monitoring approach to evaluation which uses PI has been endorsed by senior officials in the Hungarian Ministry of Labor, the National Labor Center in Hungary, and the Labor Research Institute of the Hungarian Ministry of Labor.

1There are 20 administrative districts in Hungary which include 19 counties and the federal district of Budapest. In this paper the 20 are referred to simply as counties.
The schedule for implementation is of the performance indicators system is firm, having received a commitment from the Minister of Labor and the Director of the National Labor Center. By October of 1993 the following three phases had already been completed: (1) a revision of the system of PI, (2) a pilot test of the system of PI in three counties (Borsod-Abauj-Zemplen, Hajdu-Bihar, and Somogy), and (3) nation wide training in how to conduct surveys, record data, and compute performance indicators. Nation wide implementation of the system is scheduled for January, 1994. Also that month the National Labor Market committee will consider how to use performance indicators information in management, planning, and budgeting for active labor market programs.

This paper presents an overview of the system for assessment and planning under consideration for active labor market programs in Hungary. This system represents real innovation in public management in two important ways: (1) it is an application of designing results oriented government based on PI as advocated recently by Osborne and Gaebler (1992), and (2) it is the first comprehensive attempt to manage active labor market programs in a unified way which will clearly reveal the tradeoffs involved in policy decisions.

The paper proceeds by reviewing the types of labor market programs operating in Hungary. This is followed by a review of the economic context of labor market programs. The fourth section of the paper gives an overview of the components of the system for assessment, management, and planning being implemented in Hungary. This is followed by a brief discussion of the politics of the development of the system of performance indicators (PI) which lie at the core of the system. A detailed discussion of the performance indicators themselves is given in the sixth section. Section seven presents an example of a simple adjustment methodology which will be used to set county targets for the PI. A discussion of managing with PI is then given, followed by a short conclusion to the paper.

2. Labor market support programs in Hungary

In October, 1990 the first post-war national free multi-party elections were held in Hungary. In March, 1991 a new employment act was made law in Hungary by the recently elected parliament. Prior to March, 1991 all labor market programs, both active and passive, were paid for out of the Employment Fund. The new employment act created two separate groups of programs. The measures to be paid for out of the Employment Fund are strictly active and largely discretionary. Other measures, which may be termed entitlements including unemployment compensation and costs of the employment exchange, are to be paid for out of a new separate fund called the Solidarity Fund. The Solidarity Fund also pays for the costs of the new labor market organization. The Solidarity Fund was to be financed by taxes on the total wages paid by enterprises and earned by workers. The original tax rates were 5 percent for employers and 1 percent for workers, these rates have since been raised to 7 percent and 2 percent. Revenues from these taxes still only cover about half of the Solidarity Fund expenses, with the balance being paid out of the national budget. The active labor market programs (ALPs) under the Employment Fund are funded from the national budget.

Table 1 lists the programs which operated prior to the Employment Act of 1991 (the Act), and those programs operating now. The table also indicates which programs are new and which programs were changed substantially. No longer in operation is a special program for new graduates, services to unemployed recent graduates are available through some of the new programs. The following are brief descriptions of the ALPs currently operating under the Employment Fund:

Retraining - Article 14 of the Act provides for the possibility of training for persons who either unemployed, expected to become unemployed, or currently involved in public service
employment (PSE). Certain provisions are also made for recent school leavers who are unemployed. The support for training may include a supplement to earnings or a benefit in lieu of earnings, and reimbursement of direct training expenses. The amount of benefit in lieu of earnings is equal to 110 percent of the unemployment compensation otherwise payable.

Self Employment Assistance - Article 15 of the Act provides for self employment assistance for persons who are eligible for unemployment compensation. The support may amount to 6 monthly payments of unemployment compensation beyond the basic one year eligibility. 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.²

²The model now in place with monthly payments is similar to that tested in Massachusetts, it replaces what was essentially a lump sum grant system in place prior to the 1991 Act which was similar to the model tested in Washington state. For a discussion of the American experiments see Wandner (1992).
Table 1: Employment Fund Programs in Hungary

Employment Fund Programs Prior to March, 1991

1. Unemployment Compensation *
2. Retraining
3. Self Employment Grants
4. Wage Subsidy for Hiring Long Term Unemployed
5. Public Service Employment
6. Job Creation Investments
7. Early Retirement Subsidy
8. Employment Exchange *

Employment Fund Programs Since March, 1991*

1. Retraining (Article 14)
2. Self Employment Assistance (Article 15) ***
3. Wage Subsidy for Hiring Long Term Unemployed (Article 16)
4. Public Service Employment (Article 16)
5. Job Creation Investments (Article 17)
6. Part-time Employment (Work Sharing) (Article 18)
7. Early Retirement Subsidy (Article 19)

* Administered from the Solidarity Fund since March, 1991.
** A new program in March, 1991.
*** Significant changes in the program since March, 1991.

*The article number listed in parentheses after the program name is the article number from the Employment Act of 1991.
Wage Subsidy for Hiring Long Term Unemployed - Article 16 of the Act provides for up to a 50 percent subsidy for up to one year of 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 does not lay off anyone during the subsequent 3 months.

Public Service Employment - Article 16 of the Act also provides that in the case of hiring for public works the wage subsidy may be up to 70 percent provided that no payment from another agency or under other provisions is available.

Job Creation Investments - Article 17 of the Act provides that aid may be granted to enterprises for the implementation of programs intended to facilitate the employment of persons displaced from the labor market continuously.

Part-time Employment (Work Sharing) - Article 18 of the Act provides that in cases where an employer employs all or some of his full-time workers on a part-time basis in order 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 provided 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 shall be repaid by the employer.

Early Retirement Subsidy - Article 19 of the Act provides that an employer may apply for payment from the Employment Fund of some of the money payable by him as a consequence of early retirement of his workers. The amount may be up to 50 percent if a considerable layoff was involved and no profit was realized or a loss was made during the previous year, or 100 percent if the enterprise goes out of existence or is liquidated without a successor in title. A layoff is deemed considerable if at least 25 percent of the average staff of the year before or not less than 300 workers are released. Early retirement pension cost supplements shall be suspended prior to normal retirement age if gainful employment for wages at least equal to the minimum wage is obtained.

3. The economic context of labor market programs in Hungary

From a population of about 10 million and 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 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. To further illustrate employment trends during this period, sources of labor market information are now briefly reviewed.

3.1 Employment Program Use

While a small private employment industry is now active in Hungary, this group of agencies serves only a small part of the labor force—that being mainly the high skilled seeking

*The cost of early integration into the national retirement pension system, and an employers obligation, is covered under a separate act.

*A fourth potential source of predicting employment trends is information on mass layoffs and plant closings which is available from advance notice filings required by articles 22 and 23 of the Employment Act of 1991. Recent reports and comparison to other labor market indicators were unavailable at the time of this writing.
work in joint ventures involving foreign firms. Registrations with the public employment exchange is a good measure of total unemployment in Hungary during the early 1990s mainly because access to all labor market support programs ranging from unemployment compensation to retraining, was gained through this institution.

Table 2 reports the number of unemployed registered with the employment exchange during each month from January, 1990 through April, 1993. Also reported in this table are the month-to-month percentage changes in unemployed registered with the employment exchange and similar figures for unemployment compensation recipients. From this table we see that the stock of registered unemployed grew by roughly 300,000 persons in 1991 and 250,000 in 1992. Recently the month-to-month percentage growth has been relatively small with the last few months showing an actual decline in the number of registered unemployed. Related to the decline in registered unemployment in March and April of 1993 is the trend in unemployment compensation. The recent decline in these figures reflects the increasing number of unemployment compensation exhaustees—benefits are paid monthly with the maximum entitled duration of unemployment compensation benefits being twelve months. The work search requirements for unemployment compensation recipients vary depending on their occupation, therefore not all unemployment compensation recipients are required to visit the employment exchange monthly. Unemployment compensation recipients are automatically included in the total number of registered unemployed. In an attempt to preserve the usefulness of the registered unemployed number as an indicator of total unemployment, unemployment compensation exhaustees are dropped from the unemployment register only if they fail to visit the employment exchange for two full months after benefit exhaustion.

In June, 1993 it was estimated by the National Labor Center (NLC) that the total number of Unemployment Compensation exhaustees since 1990 who are no longer on the Employment Exchange register as unemployed is 45,000. In an attempt to estimate the distribution of labor market status for this group a survey of half of this total is underway.
Table 2: Unemployment Data for Hungary (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Registered Unemployed</th>
<th>Unemployment Compensation Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>% Change</td>
</tr>
<tr>
<td>1990</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>23</td>
<td>30.4</td>
</tr>
<tr>
<td>February</td>
<td>30</td>
<td>13.3</td>
</tr>
<tr>
<td>March</td>
<td>34</td>
<td>-2.9</td>
</tr>
<tr>
<td>April</td>
<td>33</td>
<td>15.2</td>
</tr>
<tr>
<td>May</td>
<td>38</td>
<td>15.8</td>
</tr>
<tr>
<td>June</td>
<td>44</td>
<td>13.6</td>
</tr>
<tr>
<td>July</td>
<td>50</td>
<td>4.0</td>
</tr>
<tr>
<td>August</td>
<td>52</td>
<td>11.5</td>
</tr>
<tr>
<td>September</td>
<td>58</td>
<td>5.2</td>
</tr>
<tr>
<td>October</td>
<td>61</td>
<td>14.8</td>
</tr>
<tr>
<td>November</td>
<td>70</td>
<td>14.3</td>
</tr>
<tr>
<td>December</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>101</td>
<td>26.3</td>
</tr>
<tr>
<td>February</td>
<td>128</td>
<td>26.7</td>
</tr>
<tr>
<td>March</td>
<td>148</td>
<td>15.6</td>
</tr>
<tr>
<td>April</td>
<td>167</td>
<td>12.8</td>
</tr>
<tr>
<td>May</td>
<td>165</td>
<td>-1.2</td>
</tr>
<tr>
<td>June</td>
<td>186</td>
<td>12.7</td>
</tr>
<tr>
<td>July</td>
<td>216</td>
<td>16.1</td>
</tr>
<tr>
<td>August</td>
<td>251</td>
<td>16.2</td>
</tr>
<tr>
<td>September</td>
<td>293</td>
<td>16.7</td>
</tr>
<tr>
<td>October</td>
<td>318</td>
<td>8.5</td>
</tr>
<tr>
<td>November</td>
<td>351</td>
<td>10.4</td>
</tr>
<tr>
<td>December</td>
<td>406</td>
<td>15.7</td>
</tr>
<tr>
<td>1992</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>443</td>
<td>9.1</td>
</tr>
<tr>
<td>February</td>
<td>455</td>
<td>2.7</td>
</tr>
<tr>
<td>March</td>
<td>478</td>
<td>5.1</td>
</tr>
<tr>
<td>April</td>
<td>502</td>
<td>5.0</td>
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<td>May</td>
<td>523</td>
<td>4.2</td>
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<tr>
<td>June</td>
<td>547</td>
<td>4.6</td>
</tr>
<tr>
<td>July</td>
<td>587</td>
<td>7.3</td>
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<tr>
<td>August</td>
<td>601</td>
<td>2.4</td>
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<tr>
<td>September</td>
<td>617</td>
<td>2.7</td>
</tr>
<tr>
<td>October</td>
<td>627</td>
<td>1.6</td>
</tr>
<tr>
<td>November</td>
<td>642</td>
<td>2.4</td>
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<tr>
<td>December</td>
<td>663</td>
<td>3.3</td>
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<tr>
<td>1993</td>
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<td></td>
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<tr>
<td>January</td>
<td>694</td>
<td>4.7</td>
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<tr>
<td>February</td>
<td>705</td>
<td>1.6</td>
</tr>
<tr>
<td>March</td>
<td>698</td>
<td>-1.0</td>
</tr>
<tr>
<td>April</td>
<td>685</td>
<td>-1.9</td>
</tr>
</tbody>
</table>
The number of registered unemployed was a good measure of total unemployment in the early months of the decade of the 1990s, but for these and other reasons its usefulness as an indicator of the full extent of the problem is declining.

3.2 Labor Force Survey

The Labor Force Survey is conducted by the Central Statistical Office in Hungary. Questions asked are designed to allow estimation of national employment, unemployment, and underemployment based on International Labor Office standards for definitions. For example, unemployment means out of work but able, available and actively seeking work. The Labor Force Survey is based on a multi-stage stratified sample design. Interviews are conducted monthly during the week from Monday to Sunday which includes the 12th. During 1992 all persons between the ages of 15 and 74 were contacted in about 10,000 households each month for a total of about 55,500 per quarter. The sample is large enough to make estimates, with an acceptable level of sampling error, for the nation on a quarterly basis, and for some of the larger counties on an annual basis. One-sixth of the households interviewed is changed each quarter.

Table 3 is extracted from the Labor Force Survey report for 1992 by the Central Statistical Office (1992, Table 1). In this table rows are labeled in Hungarian on the left and in English on the right. The Labor Force Survey estimates that for the year unemployment averaged 9.3 percent with an increase from 8.9 percent in the first quarter to 9.7 percent in the fourth quarter. Women who make up about 48 percent of the labor force, experienced a lower unemployment rate than men. Overall, the Labor Force Survey seems to underestimate even registered unemployment by over 100,000. The 1992 Labor Force Survey estimate is 444 thousand, while from Table 2 we see that just among the registered unemployed the total averaged over 550 thousand for the year.

Comparing the 1992 annual Labor Force Survey estimates of unemployment by county with the data on registered unemployed relative to county population, it appears that perhaps the Labor Force Survey has over sampled in the relatively low unemployment-high population areas around Budapest and under sampled in high unemployment-moderate population areas such as Borsod and Szabolcs counties. In the future as the private employment agency industry develops and unemployment compensation exhaustions continue to affect employment exchange registrations, Hungary will increasingly rely on the Labor Force Survey for unemployment estimation. It may be useful for the Labor Force Survey sample to be both increased in size and reallocated to increase the precision of estimates for outlying areas.

It is a household survey similar to the Current Population Survey (CPS) which is conducted monthly in the United States.
Table 3: Economic Activity\textsuperscript{1} of the Population Aged 15-74, by Sex

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>1992</th>
<th>1st Qtr</th>
<th>2nd Qtr</th>
<th>3rd Qtr</th>
<th>4th Qtr</th>
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<tr>
<td><strong>Males</strong></td>
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<td></td>
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</tr>
<tr>
<td>Economically active population aged 15-74</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>of which:</td>
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<tr>
<td>employed</td>
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<td>unemployed</td>
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<td>Economically inactive population aged 15-74</td>
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<td>of which:</td>
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<tr>
<td>passive unemployed</td>
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<td>(discouraged persons)</td>
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<tr>
<td><strong>Females</strong></td>
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<td>Economically active population aged 15-74</td>
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<td>of which:</td>
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<td>unemployed</td>
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<td>Economically inactive population aged 15-74</td>
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<td>of which:</td>
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<td>passive unemployed</td>
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<td>(discouraged persons)</td>
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<td><strong>Both Sexes</strong></td>
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<td>Economically active population aged 15-74</td>
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<td>of which:</td>
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<tr>
<td>employed</td>
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<td></td>
</tr>
<tr>
<td>unemployed</td>
<td></td>
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<td></td>
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<tr>
<td>Economically inactive population aged 15-74</td>
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<tr>
<td>of which:</td>
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<tr>
<td>passive unemployed</td>
<td></td>
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<td></td>
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<tr>
<td>(discouraged persons)</td>
<td></td>
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</tr>
</tbody>
</table>

| Participation Rate\textsuperscript{2}    | 66.9   | 66.6   | 67.1   | 67.1   | 66.7   |
| Unemployment Rate\textsuperscript{2}     | 10.7   | 10.3   | 10.5   | 10.7   | 11.3   |
| Distribution, Percentage                 |        |         |         |         |         |
| Participation Rate\textsuperscript{2}    | 57.1   | 57.2   | 57.3   | 57.4   | 56.6   |
| Unemployment Rate\textsuperscript{2}     | 7.8    | 7.3    | 7.7    | 8.2    | 8.0    |
| Distribution, Percentage                 |        |         |         |         |         |
| Participation Rate\textsuperscript{2}    | 61.8   | 61.7   | 62.1   | 62.1   | 61.5   |
| Unemployment Rate\textsuperscript{2}     | 9.3    | 8.9    | 9.1    | 9.5    | 9.7    |

\textsuperscript{1} Military service and persons being on child-care leave are considered economically active.
\textsuperscript{2} The ratio of economically active population to the whole population aged 15-74.
\textsuperscript{3} The ratio of unemployed to the economically active population aged 15-74.
3.3 Short Term Forecasting Survey

Four waves of a short term forecasting survey have now been completed by the National Labor Center in Hungary. The survey is conducted every six months (in March and October) and involves interviews of employers regarding their plans over the next ten months. The sample of employers includes all large employers (over 1,000 employees) in Hungary and smaller employers sampled with probability proportional to their employment size. The firms periodically interviewed amount to seven percent of all enterprises who employ about thirty five percent of all workers. The questions asked in the survey include how many people are currently working at the establishment and what the plans are for the next six months concerning hiring and layoffs. Szekely (1993) reports on the fourth installment of these surveys which was conducted in March, 1993. Among the first four surveys there is good internal consistency in that enterprises appear to follow through on their stated employment policy plans. Furthermore, the forecast survey has also predicted well the trends in registered unemployed.

The short term forecasting surveys accurately predicted the dramatic rise in unemployment during 1992. An encouraging sign from the most recent report suggests that the decline in employment exchange registrations observed in the early months of 1993 is not simply due to increasing unemployment compensation exhaustions. As can be seen in Table 4 which is extracted from Szekely (1993, Table 3.4), the number of expected new hires in the coming 10 months exceeds the number of expected layoffs for three of the six employer size categories, and the overall mean ratio of expected hires to expected layoffs is approaching one.

4. A system for assessment, management, and planning programs

The following is a description of each of the separate parts of the system for assessment, management and planning of labor market programs which is being implemented in Hungary. The final subsection in this part describes how all the separate parts relate to each other.

4.1 The Data System

The data system which evolved for Employment Fund programs in Hungary through the early 1990s was designed to guarantee payment of benefits, it was not designed to yield adequate information for assessing program effectiveness. Indeed, during the beginning of this decade reliable administration of programs was the main objective to ensure social stability and confidence during a period of great uncertainty. As the rate of growth in unemployment is declining, and the demands on the central budget are pressing the limits on deficits monitored by the International Monetary Fund, reliable information to document the degree of effectiveness of labor market programs is essential.

Table 4: Ratio of Expected New Hires to Expected Layoffs Over the Next 10 Months for Firms in Hungary by Employee Size Categories

Data from the Short Term Forecasting Survey (Ratios listed in percentage terms.)

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>1000-500</th>
<th>501-1000</th>
<th>101-300</th>
<th>301-500</th>
<th>51-100</th>
<th>&lt;51</th>
<th>Total Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Month Period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991.II</td>
<td>2.4</td>
<td>7.5</td>
<td>10.3</td>
<td>50.0</td>
<td>64.4</td>
<td>16.3</td>
<td>13.0</td>
</tr>
<tr>
<td>1992.I</td>
<td>4.0</td>
<td>4.2</td>
<td>15.7</td>
<td>27.2</td>
<td>22.2</td>
<td>37.8</td>
<td>11.4</td>
</tr>
<tr>
<td>1992.II</td>
<td>16.0</td>
<td>26.0</td>
<td>43.5</td>
<td>48.0</td>
<td>92.9</td>
<td>228.0</td>
<td>41.2</td>
</tr>
<tr>
<td>1993.I</td>
<td>26.5</td>
<td>24.0</td>
<td>38.4</td>
<td>81.0</td>
<td>55.4</td>
<td>254.2</td>
<td>49.0</td>
</tr>
<tr>
<td>1993.II*</td>
<td>34.0</td>
<td>74.9</td>
<td>68.6</td>
<td>135.0</td>
<td>235.0</td>
<td>800.0</td>
<td>89.3</td>
</tr>
</tbody>
</table>

*Forecast
Source: Szekely (1993, Table 3.4)
A unified relational data base system for labor market programs is being developed by the National Labor Center. To support this effort the National Labor Center has issued instructions for standardized administration of labor market programs, so that consistent information will be available from all counties on contracts for all programs administered.

Proper assessment of the effectiveness of labor market programs requires person level data on a variety of characteristics of program participants. Since the majority of Employment Fund benefit programs are entered after registration with the employment exchange, the relational data base system shall economize storage requirements by recording basic demographic data only once—at the time of employment exchange registration. An attempt will be made to completely register with the employment exchange all persons seeking services, no matter how casual the use of the employment exchange. Demographic data on: age, gender, and education; and previous job information on: skill level, wages, hours, and industry type; will be recorded in the employment exchange register with a separate data entry mechanism for employed participants who use programs designed to prevent unemployment such as work sharing and retraining of the employed. The person level data on characteristics allows examination of program results by group. It also allows the development of a methodology for adjusting performance indicators, and may allow quasi-experimental net impact evaluations of programs.

For many programs, an attempt will be made to gather information on the reemployment job (or out of the labor force status) at the time a client leaves Employment Fund program services. Part of this could be gathered by extending use of a job referral slip used by the employment exchange. To develop a follow-up data base for most programs, a simple mail questionnaire which is accompanied by a stamped return envelope, and a brief cover letter requesting the assistance of former program participants in evaluation, will be mailed to program participants three months after their most recent Employment Fund program contact. The questionnaire will involve only about ten questions and mainly attempt to get information on: (1) current employment status, (2) the level of earnings if employed, and (3) the occupation if employed—to check the occupational relevance of training. A temporary solution to store the follow-up and cost data for computing performance indicators in a data base separate from the one for administration has been worked out. It is anticipated that as the new comprehensive relational data base is developed separate fields (places in tables) for follow up and cost information will be reserved.

4.2 Performance Indicators

The approach to monitoring the effectiveness of Employment Fund programs focuses on timely measures which can be readily implemented and will become a natural part of the management system. The process centers on what are called performance indicators (PI). These measures will allow establishment of baseline performance targets.

To develop good PI the goals of Employment Fund programs must be clearly understood. Depending on county goals, certain of the PI will be more important than others. The underlying aim of all programs funded by the Employment Fund is to get program participants employed in regular non-Employment Fund-supported jobs.

Values of the PI computed with county data for the calendar year 1994 will be used to establish baseline national standards called performance targets. County performance on each program is compared to the performance targets annually. The performance targets will be updated annually to reflect national trends.

A methodology for adjusting the national performance targets to reflect the conditions in the county labor market has been recommended. The Ministry of Labor may choose to designate certain groups for special attention in reemployment services (perhaps persons with eight or less years of schooling, persons not covered by unemployment compensation, the physically handicapped, and long term unemployed might be targeted for services). If this is done, methods for adjusting the performance targets by service to these target groups could be incorporated in the adjustment methodology to provide an incentive for providing service to these groups.
4.3 The County Employment Fund Master Plan

The County Employment Fund Master Plan serves as the long-term agreement between the Ministry of Labor and a county on basic matters of operations, management, and evaluation. Once there is agreement between a county and the Ministry of Labor on a Master Plan, it would be in effect indefinitely. However, it should be updated periodically as important details change.

The master plan fosters a unified view of Employment Fund programs and allows a minimum of redundancy in the annual plan which covers individual Employment Fund programs. The master plan establishes procedures for things which are relevant to several different Employment Fund programs. Since the master plan identifies goals for Employment Fund programs, the substance of the master plan is to be determined before an attempt is made to finalize the content of the annual plan. That is to say, a clear statement of general Employment Fund goals must be made before specific short term targets can be specified for individual Employment Fund program activities.

4.4 The County Employment Fund Annual Plan

The Employment Fund Annual Plan serves as the official agreement between the County and the Ministry of Labor on how the specific Employment Fund programs will be operated in the coming year.

The annual plan gives details concerning program management and monitoring. It also presents annual reports on program activity and PI. The annual plan establishes an activity forecast which is a prediction concerning the volume of clients to be served. The annual plan also sets county performance targets, and provides a forecast of direct costs for each program.

The annual plan presents a unified financial plan which considers the direct costs of all ALPs as well as related administrative costs. This financial plan also includes a unified budget estimate and a funding request for the coming year.

4.5 The County Quarterly Reports

Counties will be required to file reports on activity in each Employment Fund funded program on a quarterly basis. These reports will be brief including mainly summary statistics on the volume of program activity. A brief narrative describing employment conditions in the county will be prepared by the counties and included in the quarterly report.

4.6 The Ministry of Labor Employment Fund Master Plan

The Ministry of Labor Employment Fund Master Plan will start with a statement of the relevant laws and ministerial decrees governing Employment Fund programs. This will be followed by a clear statement of Ministry Employment Fund program goals. The nature of the relationship between county and local employment center offices will also be clearly stated. In addition to laws and decrees governing Employment Fund programs, the Ministry Employment Fund Master Plan should specify all other labor laws to be explicitly observed by parties using Employment Fund money.

Just as for the county master plan, the Ministry's Employment Fund Master Plan must cover matters of operations, management, evaluation, and finance—including the algorithm to be recommended to the National Labor Market Committee for the annual budget allocation process. Since the Ministry wishes the counties to consider the collection of Employment Fund programs as a unified set of services which should be used collectively to address program goals in a cost effective fashion, the Ministry must administer Employment Fund programs to the counties in a consistent and uniform way. The Ministry Employment Fund Master Plan should detail the processes for review of the County Employment Fund Master Plans and

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8The National Labor Market Committee is a tri-partite body with representatives from business, labor, and government which makes general recommendations regarding the direction of labor market policy, and which also annually approves the formula for allocation of the decentralized Employment Fund budget to the counties. For 1993 about 60 percent of the Employment Fund was allocated as decentralized.
modifications, the County Employment Fund Annual Plans, and the County Employment Fund Quarterly Reports.

The importance of clearly specifying authority for Employment Fund program decisions, and the processes for review of Employment Fund materials from the counties cannot be overemphasized. For the county and local employment centers to operate efficiently and consistently, they must receive efficient and consistent treatment in their interactions with the Ministry of Labor on Employment Fund matters.

The Ministry Employment Fund Master Plan should also specify procedures for making announcements to the county and district employment center offices about changes in legal statutes affecting the operation or funding of Employment Fund programs. Dates should be set for filing of reports and plans by the county and response from MOL. The calendar of these dates should be specified and the schedule should be strictly maintained.

4.7 The Ministry of Labor Employment Fund Annual Plan

The Ministry of Labor Employment Fund Annual Plan must cover three important matters. First, procedures for review of county annual plans. Second, revision of Employment Fund program performance indicators (PI) and performance targets. And third, development of the annual decentralized Employment Fund budget allocation algorithm to be recommended to the National Labor Market Committee.

The calendar for preparing and reviewing the county annual plans is established in the Ministry of Labor Employment Fund Master Plan, the details of the review process should be specified in the Ministry of Labor Employment Fund Annual Plan. This plan should also include a description of the procedures for reviewing achievement of performance targets by the counties for the previous year.

In the annual plans submitted by each county a unified financial plan is presented. These should be evaluated and used in preparing the Employment Fund annual financial plan which is the basis for (1) budget requests from parliament, and (2) budget allocation of the decentralized Employment Fund among the counties.

4.8 Implementation of the Planning and Evaluation Process

The following are the sequential steps in the unified evaluation and planning process:

(1) Starting from the Employment Fund decrees, the Ministry of Labor (MOL), in consultation with the National Labor Market Committee, specifies Employment Fund programs goals. These goals are included in the Ministry of Labor Employment Fund Master Plan, and are announced to the counties in the Guidelines for Preparing a County Employment Fund Master Plan.

(2) After considering the Employment Fund decrees and MOL goals, county labor administrations set their Employment Fund program goals in consultation with their County Labor Market Committee. The county goals for Employment Fund programs are stated in the County Employment Fund Master Plan, which also details the relationship between the county and the MOL on Employment Fund program matters.

(3) MOL in cooperation with the National Labor Center estimates the "Number of job seekers who actively use the employment exchange" for the planning year for each county. The estimate on job seekers is the county basis for estimates of activity in

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9The County Labor Market Committee is a tri-partite body with representatives from business, labor, and government which makes general recommendations regarding the direction of county labor market policy, and which also annually approves the formula for allocation of the decentralized MOIL appropriation received to the various MOIL programs operated in the county.

10A one day conference or seminar will be held annually with the planning representative from each county in attendance to review the Guidelines for Preparing a County MOIL Master Plan.
other Employment Fund programs. These items are communicated to the counties in the Guidelines for Preparing a County Employment Fund Annual Plan.

(4) The County Employment Fund Annual Plan summarizes program activity and achievement of performance targets. It describes the management, monitoring, and planning procedures used in the county. Counties consider the National Labor Center estimate on the "Number of job seekers who actively use the employment exchange," and other details of their economic situation and specify performance targets for each Employment Fund program for the coming year. Counties also prepare a financial forecast of the cost associated with planned activities. All of this is included in the County Employment Fund Annual Plan submitted to the MOL.

(5) The methodology department in the National Labor Center reviews the annual plans submitted by the counties and prepares a summary report for the MOL which, in addition to a summary of the county reports, includes the National Labor Center estimate for the coming year. The Employment Fund planning department in the MOL receives and reviews the annual plans from the counties and the summary report from the National Labor Center and prepares a MOL Employment Fund Annual Plan which is the basis for the Employment Fund budget request from Parliament and recommendations for allocation of the decentralized Employment Fund by the National Labor Market Committee.

(6) MOL reviews county performance on the previous year's PI and specifies national performance targets and adjustment weights for the coming program year. The MOL informs the county about funding available for their Employment Fund programs for the coming year.

(7) The counties solicit retraining, PSE, and job creation investment proposals and prepare for the process of proposal review and project award.

(8) The counties submit reports to MOL on program activity quarterly.

This sequence is appropriate for the first year of planning and evaluation under the new system. After county master plans are in place, only steps three through eight would be repeated annually. Any revisions to county Employment Fund master plans are to be agreed on by the MOL and the counties as circumstances change.

5. The politics of developing performance indicators in Hungary

There were three major parts of the politics of developing performance indicators (PI) in Hungary: (1) setting program goals, (2) developing performance indicators of program goals, and (3) consensus building. While a separate task in itself, the last of these three influenced the approach to developing the other two.

Reaching agreement on the list of performance indicators took much longer than planned, however, from the perspective of the long term success of the project the result was worth the price. The lengthy process resulted in a significant degree of consensus on the criteria, and a sense of participation and ownership by those who will ultimately use the system for planning and evaluation.

While there was some change in the number, type, and rules of the ALPs in Hungary between 1990 and 1992, many of the goals for ALPs enunciated by the MOL program directors in 1990 were still applicable for the renewed effort. In 1992 the principle goals stated by representatives of the MOL, the National Labor Center, and the county labor administrations in the three project pilot counties were: (1) reemployment in regular (not subsidized) jobs, (2) at good wages. While the adequacy of income replacement is frequently an issue in the evaluation of passive labor market programs, among ALPs it might be an important goal only for public service employment.

The project to revise and implement the PI, planning, and management system began in May, 1992 and is scheduled to conclude in December, 1993 with national operation beginning January, 1994.
On Thursday October 22, 1992 a grand meeting was held in Miskolc, Hungary. The meeting was attended by representatives of all groups who will be working with the PI system and other advisors. Representatives were from: Ministry of Labor, National Labor Center, Labor Research Institute of the Ministry of Labor, Somogy County Labor Center, Hajdu-Bihar County Labor Center, Borsod County Labor Center, and the Upjohn Institute for Employment Research. Final agreement was reached on the list of PI to be used, and the means for computing the PI.

On Thursday October 29, a talk was given to a meeting of the 20 Directors of the County Labor Administrations. The talk happened at a conference called the Foglalkoztatás '92-93 in Szeged, Hungary. In addition to the directors the others in attendance were the Director General of the National Labor Center, the Chief of Audit in the MOL, the Chief of Employment Policy in MOL, a representative from the Labor Research Institute, and the Deputy Chief of the Training Department in the MOL.

The presentation in Szeged began by noting work on the system was done in cooperation with three different counties and that implementation was still more than a year away so that it would be useful if the other county director generals could offer comment to help shape the system. The substance of the talk was an overview of the management and planning system to be implemented and concrete examples of PI on which the system is based. It was stated that the system would be a management tool to aid counties in effectively using Employment Fund money. It was emphasized that the system of PI, management, and planning did not represent a return to the past days of excessive central planning, but rather that it was an approach to maintain decentralized decision making and the greatest possible degree of autonomy for county labor administrations. It was argued that the PI should be viewed as an unobtrusive means for the MOL and the National Labor Center to monitor activity. The system excludes day to day involvement of the National Labor Center and MOL in operation of active labor market programs, but allows unobtrusive monitoring of performance. The system whereby targets for PI will be set on a county by county basis, which recognizes the relative differences in counties in terms of the severity of the unemployment problem and the characteristics of the population served by the programs was also explained. In terms of using the PI for management, it was claimed that the emphasis would be positive reinforcement of good performance and management assistance where programs could be improved.

The talk at Szeged concluded with an appeal for resources to support development of the computer software for the planning and evaluation system. Shortly after the meeting a commitment was made by the National Labor Center to ensure coordination of resources to produce a software solution.

6. Performance indicators for Hungarian labor programs

Performance indicators are a widely accepted method for managing public programs. Green and Aaronson (1992) discuss how PI are used in managing training and education programs in 39 programs which are administered by 7 departments of the U.S. federal government. Osborne and Gaebler (1992) provide documentation of innumerable cases where PI are used by state and local governmental units in the U.S. Overseas there are extensive systems of PI used in England and Sweden for labor market program. This section discusses the principles, politics of selection, and some steps in the process of implementation of an integrated system of PI for active labor market programs in Hungary.

6.1 Principles guiding specification of performance indicators

Naturally, the set of performance indicators (PI) should be set to guide program operations toward the goals of the programs, but the most fundamental principle governing the development of performance indicators is that outcomes rather than process is emphasized. This is particularly important to bear in mind when instituting such a system within government agencies where planning and building of organizations was up until recently the main objective.

6.1.1 A small number of performance indicators

Particularly during the present period of rapidly rising unemployment it is important that the system for monitoring cost effectiveness of Employment Fund programs not impose an excessive administrative burden on county and local employment centers where the first priority
must be service to clients. The list of PI proposed suggests no more than eight measures for any program. The associated follow-up surveys ask no more than ten questions of any program user. By limiting performance measurement to a small number of indicators, the follow-up surveys may also remain simple. This will increase the reliability of data gathered, increase the response rate, and increase the likelihood that the system will survive over time thereby yielding valuable information on how programs perform over time.

6.1.2 Allow comparison across programs and counties

A basic objective of evaluating Employment Fund programs is to compare their relative cost effectiveness. Indeed many of the PI to be used in Hungary are cost-effectiveness measures in the sense of Garber and Phelps (1992). They are all constructed so as to measure output per unit input.

The ultimate success of any Employment Fund program occurs when a program participant either gains regular employment or avoids unemployment with the assistance provided. The average expenditure to achieve this result is the basic measure for comparing effectiveness across programs. It is anticipated that results of monitoring the PI will feed directly into the planning process and help determine the budget allocation. This is part of the process which may result in an optimal mix of programs.

Since the counties vary in their industrial mix and economic strength and the programs vary in their duration and scale most PI proposed are stated in relative terms. The sole exception are PI for earnings.

The data for computing PI is to be collected and organized at the individual person level. In addition to regional characteristics such as the unemployment rate, individual records will also include demographic characteristics such as age, gender, education level, skill level, and information on any special barriers to employment such as recent school leaver, long term unemployed, or degree of physical handicap. Using this data county targets for PI can be adjusted to reflect the regional and demographic characteristics of the population served. This leveling of the playing field is an important aspect of the PI system for comparing performance across counties and programs. It should also be noted that this system can be set up to encourage service to the hard to employ by giving extra weight for service to target groups with specified barriers to employment.

6.1.3 Incentive compatibility

In specifying PI for Employment Fund programs it is important that the intermediate goals which result from the PI are consistent with the broad objectives of securing appropriate regular employment and maintaining adequate income support. High performance as measured by the PI should not have unintended negative side effects. The issue of incentive compatibility of PI with larger aims has received quite extensive attention in the research literature; important papers are: Barnow (1992), Dickinson et al. (1988), and Singer (1986).

6.2 A hierarchy of goals for labor market programs

To give a systematic overview of the goals of labor market programs and to guide the specification of PI which support these goals, Figure 1 is provided below. The left hand side of Figure 1 is presented as a pyramid to reflect the fact that there is a hierarchy in the goals for labor market programs. The right hand side of Figure 1 gives a translation of the four levels in the pyramid into categories of PI.

The over-riding goal of the collection of labor market programs is to achieve reemployment of unemployed persons. This goal is represented at the top of the pyramid in Figure 1. Two categories of performance indicator measure the success in achieving this goal: \( r \) - rate of reemployment, and \( c \) - cost of reemployment. The second level in the pyramid summarizes the goal of providing transitional services which ease the transition from unemployment to reemployment. The category of performance indicator measuring cost of achieving this goal is: \( s \) - support cost. In the pyramid of Figure 1 the bottom category, or foundation of the pyramid, is the variety of program specific goals, PI for this category are
Figure 1
Hierarchy of Goals for Labor Market Program
Guided by Performance Indicators

Promote Reemployment

Provide Transitional Services

A Variety of Other Program Specific Goals

c - Cost of Reemployment

r - Rate of Reemployment

s - Support Cost

p - Program Specific Goals
labeled p - program specific goals. This is the foundation of the pyramid because it is the diversity in the array of programs which supports having a collection. The diversity is necessary because it is impossible to serve all needs with a single program.

Another part of the strategy in developing PI is to specify them so that comparisons across programs are possible. Certain of the PI across programs should be similar enough to allow this. The most comparable measure across programs falls under the category cost of reemployment, c. In the PI this is usually based on measurement of employment at follow-up. All programs, except Early Retirement, have a measure of the program cost of reemployment measured in Hungarian forints. Other categories of PI such as the rate of reemployment, r, and the support cost, s, also allow for comparison across programs, but the PI formulae for measurement across programs are less similar due to the differences in program design.

6.3 The performance indicators in Hungary

Table 5 which appears on the next two pages lists the PI proposed for seven active labor market programs paid for out of the Employment Fund, plus the employment exchange. While the employment exchange is paid for out of the Solidarity Fund, it is considered to be an active labor market measure. In Table 5 the article of the Employment Law which gives the rules for use of each program is specified in parentheses. A discussion of each measure and the details of computation are taken up in the next section.

Reviewing the list of performance indicators (PI) for each program given in Table 5 we can see that the PI specified allow monitoring of how well the hierarchy of program goals are met. A matrix describing this coverage is given as Figure 2. The matrix shows that all labor market programs except Early Retirement can be compared using PI in terms of "rate of reemployment" (r) and all programs except Early Retirement and Employment Exchange can be compared in terms of "cost of reemployment" (c). All programs can be compared in terms of "support cost" (s) except the Employment Exchange and Job Creation Investments where no income support payment is involved. Finally, because there are unique goals of each program which cannot be achieved using other programs, performance indicators of "program specific goals" (p) are included for each program.

6.4 Computing performance indicators

The following is a review of each of the PI listed in Table 5 for retraining of unemployed. Just as in Table 5 the category of performance measured by the indicator is indicated by a letter after the name of the indicator. All four categories of performance are measured with the six indicators for assessing retraining of unemployed. Following the name of each indicator there is a statement of the rule for computation and some brief comments about special data gathering considerations. There are two sources of data for computing the PI: administrative records and follow-up surveys. In formulae listed for computation, the source of data for each concept is indicated by capital letters in parentheses with (A) for administrative records and (F) for follow-up surveys. Each of the PI are to be computed using data which covers a single calendar year of program activity. For example, counties may be required to report by July 1 on activity completed in the previous calendar year. This should allow sufficient time to complete all follow-up surveys which are to be done 3 months after program completion. Once the system is working, it is planned that there will be additional follow-up at 1 year. This schedule of follow-up is proposed for all programs.
Table 5: Performance Indicators for Active Labor Market Programs

1. Retraining (Article 14)

*Retraining of Unemployed*

- Average cost per course completer employed at follow-up (c)
- Proportion of course completers who are employed at follow-up (r)
- Average cost per training program entrant (s)
- Proportion of entrants who successfully complete training courses (p)
- Average monthly earnings of course completers employed at follow-up (p)
- Proportion of employed course completers working in occupation of training at follow-up (p)

*Retraining of Employed*

- Average cost per course completer employed at follow-up (c)
- Average cost per course completer still employed at firm of training at follow-up (c)
- Proportion of course completers who are employed at follow-up (r)
- Proportion of course completers still employed at firm of training at follow-up (r)
- Average cost per training program entrant (s)
- Proportion of entrants who complete training courses (p)
- Average monthly earnings of course completers employed at follow-up (p)
- Proportion of course completers working in occupation of training at follow-up (p)

2. Self Employment (Article 15)

- Average sum of assistance per person still self-employed at follow-up (c)
- Proportion of persons still self employed at follow-up (r)
- Average subsidy per subsidized self-employed (s)
- Average added employment resulting from self employment assistance at follow-up (p)

3. Wage Subsidy for Hiring Long Term Unemployed (Article 16)

- Subsidy per worker in regular employment at follow-up (c)
- Proportion of subsidized workers who are in regular employment at follow-up (r)
- Average monthly cost of wage subsidy per subsidized employee (s)
- Average duration of subsidy per subsidized employee (p)

4. Public Service Employment (Article 17)

- Average PSE cost per worker in regular work at program exit (c)
- Proportion of PSE workers in regular work at program exit (r)
- Average monthly cost per PSE worker (s)
- Average monthly earnings of PSE workers in regular work at program exit (p)
- Average duration of PSE employment for program leavers (p)
- Average duration of PSE employment for program leavers who gain regular employment (p)

5. Job Creation Investments (Article 17)

- Average cost of subsidies per new job created (c)
- Proportion of placements still employed at follow-up (r)
- Among jobs promised the proportion actually created (p)
- Among jobs created the proportion filled by persons from target groups (p)
Table 5 (cont.)

6. Part-time Employment (Work Sharing) (Article 18)

Average cost per job saved (c)
Proportion of jobs at risk which are saved (r)
Average cost per job at risk (s)
Average number of months employees are subsidized (p)

7. Early Retirement Subsidy (Article 19)

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

8. Employment Exchange (Article 47-53)

Average number of referrals per job placement (r)
Average number of days until reemployment (p)
Average cost per employment exchange visit (p)
Average cost per employment exchange registrant (p)
Average number of days until vacancies are filled (p)
### Figure 2
Classification of Performance Indicators for Labor Market Programs

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>c</td>
</tr>
<tr>
<td>1. Retraining</td>
<td>x</td>
</tr>
<tr>
<td>2. Self Employment</td>
<td>x</td>
</tr>
<tr>
<td>3. Subsidy for Long Term Unemployed</td>
<td>x</td>
</tr>
<tr>
<td>4. Public Service Employment</td>
<td>x</td>
</tr>
<tr>
<td>5. Job Creation Investments</td>
<td>x</td>
</tr>
<tr>
<td>6. Part-time Employment</td>
<td>x</td>
</tr>
<tr>
<td>7. Early Retirement</td>
<td></td>
</tr>
<tr>
<td>8. Employment Exchange</td>
<td></td>
</tr>
</tbody>
</table>

**Categories of Performance**

- **c** - Cost of Reemployment
- **r** - Rate of Reemployment
- **s** - Support Cost
- **p** - Program Specific Goals
Average cost per course completer employed at follow-up \( (c) \)

\[
= \frac{[\text{total cost for completed courses (A)}]}{[\text{number of course completers employed at follow-up (F)}]}
\]

Figures for this PI should be compiled for each course completed during the previous year (individual training should be treated as a single course), and averaged over all courses completed in the previous year. The denominator is the number of trainees from courses completed in the previous calendar year who are employed at the date of the follow-up survey.

Proportion of course completers who are employed at follow-up \( (r) \)

\[
= \frac{[\text{number of course completers employed at follow-up (F)}]}{[\text{number of trainees who successfully finished courses (A)}]}
\]

This PI is computed as a fraction of all persons who completed training. Some persons who leave training early may do so to become immediately employed because of a job offer which may be related to the training.

Average cost per training program entrant \( (s) \)

\[
= \frac{[\text{total cost for completed courses (A)}]}{[\text{number of persons entering training courses (A)}]}
\]

This PI is computed using data from courses completed during the calendar year. The data should be compiled around the time of course completion. These figures may be compiled for each course, or module, completed during the year (individual training should be treated as a single course), and averaged over all courses completed during the calendar year.

Proportion of entrants who successfully complete training courses \( (p) \)

\[
= \frac{[\text{number who finish training courses (A)}]}{[\text{number who entered training courses (A)}]}
\]

This PI will be computed for all training completed in each county in the year. However, with person level data this could also be computed on a course by course (or module) basis for internal county management purposes. It will be compiled two weeks after a course ends, after all participants have had at least two chances to pass the final examination.

Average monthly earnings of course completers working at follow-up \( (p) \)

\[
= \frac{[\text{sum of average monthly earnings of course completers at follow-up (F)}]}{[\text{number of course completers employed at follow-up (F)}]}
\]

This measure of earnings should be average monthly earnings before bonuses are added or taxes are deducted. It should be averaged across only those training course completers who are employed at the time of the follow-up survey.

Proportion of employed course completers working in occupation of training at follow-up \( (p) \)

\[
= \frac{[\text{number of course completers working in occupation of training (F)}]}{[\text{number of course completers employed at follow-up (F)}]}
\]

Training may or may not provide explicit occupational skills. This measure should be averaged across only those training course completers who received occupational training, and are employed at the time of the follow-up survey.

6.5 Follow-up surveys for computing performance indicators

To provide an example, the questions which will constitute the follow-up survey for participants in retraining programs appears as Appendix A to this report. Similar brief surveys have been developed for each of the active Employment Fund programs. While an attempt has been made to keep the surveys extremely brief so that there will be a high response rate when they are distributed by mail, the survey for each program also includes a subjective question or two asking for an opinion about the usefulness of the services provided. These subjective
questions are not directly used in computing PI, but they will provide useful information about consumer reaction.\textsuperscript{12}

Following returns of mail surveys there will be an attempt to contact those who do not respond by mail. Final survey results will be weighted by the reciprocal of the response rate in an attempt to correct for non-response bias.\textsuperscript{13} Pilot tests of the mail follow-up surveys in Hajdu-Bihar county had response rates of about fifty percent—in person contacts of non-responders will be attempted by staff of local employment centers. A November 1992 survey of labor market program participants sponsored by the International Labor Office in Borsod, Hajdu, and Somogy counties which was done in person experienced a response rate in excess of ninety percent.\textsuperscript{14} It is recognized that in person surveys conducted by staff of the labor organization may elicit biased responses. In the future it is possible that surveys of labor market program participants will be conducted by third party survey organizations.

7. An adjustment methodology for performance indicators

For the following three reasons, an adjustment methodology has been included as part of the system of performance indicators: (1) to assess the effectiveness of programs in each county considering the specific reemployment difficulties faced in the county, (2) to reduce "creamming" when counties work to meet performance targets\textsuperscript{15}, and (3) to provide incentives for targeting services to certain special groups.

7.1 A Simple Example

Figure 3 is an example of the work sheet which will be used by a county to adjust the national performance target to determine its own performance targets for a particular performance indicator (PI). The example given in Figure 3 is for the PI: "cost per training program completer employed at follow-up."

The national performance targets are simply the unadjusted means of the PI realized across the nation. In Figure 3, the values under the heading "weights" are the amounts by which deviations in county values of PI from national average PI values change the county performance targets from the national performance targets. The weights in Figure 3 are based on hypothetical data. The example given shows a case where it is typical in the nation for a one percent increase in the percent of training participants who are aged 45 or over to decrease the average cost per employed trainee at follow-up by HUF 18,210 (monetary units—Hungarian Forints). Increases in the other factors—percent of trainees with 8 or fewer years of schooling, percent of trainees who are recent graduates, and the unemployment rate in the county—all tend to increase the average cost per employed trainee at follow-up.

Since the PI concerns average cost, in this example a lowering of the performance targets is a tightening of the target, and a raising of the performance targets means the target is relaxed. In the example, since Borsod county involved 0.36 percentage points more persons over 45 years of age in their training program than the national mean, and since that factor tends to decrease costs, the performance target for Borsod county is lowered by HUF 6,560. For the school achievement factor Borsod exceeded the national mean, and since that factor

\textsuperscript{12}This type of survey question is recommended as very useful for helping to inform policy in Chapter 5: "Consumer Driven Government" of Osborne and Gaebler (1992).

\textsuperscript{13}A discussion of the weighting procedure to adjust for survey non-response is given in Chapter 14 of Hussmanns, Mehran and Verma (1992).

\textsuperscript{14}For a discussion of this survey see Godfrey, Lazar, and O'Leary (1993).

\textsuperscript{15}Creaming refers to the practice of program administrators selecting the most qualified candidates for program participation so as to increase the likelihood of program success. The analogy is to milk where the best 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 qualified people get 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.
<table>
<thead>
<tr>
<th>C. PERFORMANCE PERIOD</th>
<th>D. DATE CALCULATED</th>
<th>E. PERFORMANCE INDICATOR</th>
<th>A. COUNTY NAME</th>
<th>B. COUNTY NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calendar Year 1992</td>
<td>6/15/93</td>
<td>Average Cost Per Training Course Completer Employed Follow-Up</td>
<td>Borsod-Abauj-Zemplen</td>
<td>#5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>F. COUNTY FACTORS</th>
<th>G. COUNTY FACTOR VALUES</th>
<th>H. NATIONAL AVERAGES</th>
<th>I. DIFFERENCE (G minus H)</th>
<th>J. WEIGHTS</th>
<th>K. EFFECT OF COUNTY FACTORS ON PERFORMANCE INDICATORS (I times J)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. % AGE 45+ (RT14)</td>
<td>4.9</td>
<td>4.54</td>
<td>0.36</td>
<td>-18.21</td>
<td>-6.55</td>
</tr>
<tr>
<td>2. % SCHOOL ≤ 8 (RT15)</td>
<td>25.4</td>
<td>19.16</td>
<td>6.24</td>
<td>0.139</td>
<td>0.87</td>
</tr>
<tr>
<td>3. % NEW GRADS (RT16)</td>
<td>7.3</td>
<td>8.35</td>
<td>-1.05</td>
<td>9.60</td>
<td>-10.07</td>
</tr>
<tr>
<td>4. % UNEMP RATE (III)</td>
<td>17.9</td>
<td>12.17</td>
<td>5.74</td>
<td>8.59</td>
<td>49.28</td>
</tr>
</tbody>
</table>

I. TOTAL               | 33.53                   |                       |                         |            |                                                                  |

M. NATIONAL AVERAGE PERFORMANCE INDICATOR | 256.85                |                       |                         |            |                                                                  |

N. MODEL-ADJUSTED PERFORMANCE INDICATOR (L + M) | 290.38                |                       |                         |            |                                                                  |

O. ACTUAL PERFORMANCE LEVEL | 241.1                  |                       |                         |            |                                                                  |

P. % DEVIATION OF ACTUAL FROM MODEL ADJUSTED PERFORMANCE LEVEL ((O-N)/N)*100 | -16.97                |                       |                         |            |                                                                  |
tends to increase costs the cost standard was slightly relaxed. For the percent of new graduates
in the program, since Borsod was below the national mean in service to this group, and since
this factor tends to raise costs Borsod's target average cost is lowered. For the fourth factor,
since the unemployment rate in Borsod county exceeds the national average by a significant
margin, and since a high unemployment rate tends to raise the average cost per employed
trainee at follow-up the performance target is significantly relaxed for this factor.

7.2 Development of the adjustment weights

The weights used in the performance indicators adjustment method work sheet are
simply coefficients from estimation by ordinary least squares (OLS) of a multivariate regression
model of the following type:

\[ y_i = b_0 + b_1x_{1i} + b_2x_{2i} + b_3x_{3i} + b_4x_{4i} + u_i, \]

where, \( x_1 \) to \( x_4 \) represent the four adjustment factors used to compute the weights which appear
in Figure 3. The four factors are: percent of training participants aged 45 years and over \( (x_1) \),
the percent of training participants who had 8 or fewer years of formal education \( (x_2) \), the
percent of training participants who are recent graduates \( (x_3) \), and the county unemployment rate
in percentage terms \( (x_4) \). Following is the result of estimating equation (1) on hypothetical data
provided by the Borsod County Labor Center for the 20 Hungarian counties:

\[ y_i = 152.3 - 18.2x_{1i} + 0.1x_{2i} + 9.6x_{3i} + 8.6x_{4i}. \]

\[ (116.6) (17.3) (2.3) (12.2) (2.8) \]

Figures in parentheses are standard errors, the coefficient of determination was 0.52. The F-
statistic for joint significance of all parameters estimated of 4.06, indicated that taken together
the parameters are non-zero in a test at the 95 percent confidence level.

7.3 Refinement of the Adjustment Methodology

There are obvious problems with the adjustment methodology as presented. Clearly a
sample size of 20 is too small on which to base such an important management method.
Furthermore, before adjusting the performance targets, the OLS regression parameters will
automatically place half of the counties above the national mean performance targets and the
other half below.

It is being recommended that an adjustment methodology only be attempted after the
first year of data collection which includes gathering of follow-up surveys. From these surveys
large random samples may be taken with the PI being calibrated using micro data.\(^16\) This
procedure will involve linking unit costs to programs. In the future as the system matures, the
adjustment factors used will change depending on changes in policy targets, and the
methodology used for computing adjustment weights will be refined.\(^17\)

8. Managing programs using performance indicators

The system of PI described in this paper for active labor market programs in Hungary
is quite similar to that used for the Job Training Partnership Act (JTPA) programs in the United
States. There are excellent detailed manuals for managing with the system of PI developed for
JTPA, and these would be good guides for methods in Hungary; examples are: Laventhol and
Horvath (1988), and Ryan and Kauder (1990). The main principles guiding the mechanics of
these methods are summarized in Osborne and Gaebler's (1992) Reinventing Government, the

\(^{16}\)A good discussion of methods for refining performance indicators is given in Richard W. West (1992),
Development of Adjustment Models for PY 92 JTPA Performance Standards for Titles II-A and III, Menlo Park,

\(^{17}\)A good guide on setting performance indicators was produced by the Office of Strategic Planning and
Policy Development (1989) in the U.S. Department of Labor. It is called a Guide for Setting JTPA Title II-A
and Title III (EDWAA) Performance Standards for PY 89. The Office of Strategic Planning and Policy
Development also funded the report by West (1992).
closely read manual for analysts working on Vice President Al Gore's committee to improve the efficiency of the American federal government.

8.1 Incentives: Rewards and management assistance

While the planning and evaluation methods developed for labor market programs in Hungary will also have many unanticipated uses for management, it is expected that the five principal uses will be:

(1) To preserve decentralized decision making about allocation of funds to various programs and service providers.

(2) To promote superior performance by counties, local offices, and service providers through positive incentives.

(3) To help identify and correct poor performance through technical assistance and/or sanctions.

(4) To contribute information on performance to the funding allocation process used by the tri-partite National Labor Market Committee to allocate funds to the counties.

(5) To ensure compliance with legal requirements of programs.

The emphasis among these uses is on positive incentives rather than punitive action.

8.2 Summarizing performance indicators: Three examples

Table 6 presents a summary of some results of using PI for three hypothetical counties—A, B, and C. The table lists the percentage deviation from the regression adjusted performance target for each county. Hypothetical values are included for all the PI listed Table 5 except for retraining of the employed. The presentation in Table 6 provides a convenient way to examine the various dimensions of performance for each separate program. The table also allows comparison across programs using PI with similar units of measure. It is possible to use the PI information in various ways to suit particular uses. In this section we quickly review three possibilities.

Following the guide given in Figure 2, a summary indicator for the PI category "Cost of Reemployment" could combine information from six of the separate programs for which PI are listed in Table 5:

1. Average cost per course completer employed at follow-up (c)
2. Average sum of assistance per person still self employed at follow-up (c)
3. Subsidy per worker in regular employment at follow-up (c)
4. Average PSE cost per worker in regular work at follow-up (c)
5. Average cost of subsidies per new job created (c)
6. Average cost per job saved (c)

While measure is slightly different all of these PI measure the average cost of final program success: reemployment. Adding up the percentage deviations from adjusted standards from Table 6 and dividing by six, the number of PI involved, yields the following simple average cost indicators: -4.0 percent for County-A, 17.5 percent for County-B, and -4.3 percent for County-C. It is reasonable to average these cost indicators because the objective is to have each separate measure negative. Therefore the goal is to have the overall average negative. In the example counties A and C were in the acceptable range for cost effectiveness while county B significantly exceeded its cost target.

A natural next step would be to investigate the particular programs which contributed most to the high average cost for County C. A problem with this method is that programs operated at very high average cost for achieving outcomes could be offset by others which are operated very cost effectively.
Table 6: Percentage deviation of actual values of county performance indicators from the adjusted standards

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th>Measurement</th>
<th>County-A</th>
<th>County-B</th>
<th>County-C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Retraining</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg cost per course comp. (cc) emp at follow-up (c)</td>
<td>%</td>
<td>-17.0</td>
<td>-8.8</td>
<td>-3.6</td>
</tr>
<tr>
<td>Prop of cc who are employed at follow-up (r)</td>
<td>%</td>
<td>7.7</td>
<td>-12.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Avg cost per training program entrant (s)</td>
<td>%</td>
<td>-10.1</td>
<td>-13.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Proportion of entrants who complete training (p)</td>
<td>%</td>
<td>1.6</td>
<td>3.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Avg mo. earnings cc employed at follow-up (p)</td>
<td>%</td>
<td>4.0</td>
<td>4.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Prop of emp cc wrk in occ. of trn at follow-up (p)</td>
<td>%</td>
<td>5.4</td>
<td>-4.2</td>
<td>-2.9</td>
</tr>
<tr>
<td><strong>2. Self-employment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg sum-assist per pers self-emp at follow-up (c)</td>
<td>%</td>
<td>-9.5</td>
<td>12.3</td>
<td>-9.6</td>
</tr>
<tr>
<td>Prop. of persons still self-employed at follow-up (r)</td>
<td>%</td>
<td>12.2</td>
<td>-22.9</td>
<td>13.4</td>
</tr>
<tr>
<td>Average subsidy per subsidized self-employed (s)</td>
<td>%</td>
<td>1.3</td>
<td>-10.8</td>
<td>7.3</td>
</tr>
<tr>
<td>Avg added employ from self-emp asst at follow-up (p)</td>
<td>%</td>
<td>-30.4</td>
<td>20.9</td>
<td>-38.5</td>
</tr>
<tr>
<td><strong>3. Wage subsidy for hiring long-term unemployed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidy per worker in reg. employ at follow-up (c)</td>
<td>%</td>
<td>-1.9</td>
<td>60.6</td>
<td>20.2</td>
</tr>
<tr>
<td>Prop subsidized wkrs in reg emp at follow-up (r)</td>
<td>%</td>
<td>20.9</td>
<td>-31.1</td>
<td>-12.8</td>
</tr>
<tr>
<td>Avg mo cost-wage subsidy per subsidized employee (s)</td>
<td>%</td>
<td>1.4</td>
<td>2.7</td>
<td>-6.0</td>
</tr>
<tr>
<td>Avg duration-subsidy per subsidized employee (p)</td>
<td>%</td>
<td>7.1</td>
<td>-3.7</td>
<td>12.6</td>
</tr>
<tr>
<td><strong>4. Public service employment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg pse cost per worker in reg work at prgm exit (c)</td>
<td>%</td>
<td>-2.9</td>
<td>0.4</td>
<td>-23.7</td>
</tr>
<tr>
<td>Prop pse workers in reg work at prgm exit (r)</td>
<td>%</td>
<td>25.9</td>
<td>1.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Avg monthly cost per pse worker (s)</td>
<td>%</td>
<td>0.8</td>
<td>8.8</td>
<td>-7.3</td>
</tr>
<tr>
<td>Avg mo earn of pse wkrs in reg work-prgm exit (p)</td>
<td>%</td>
<td>-2.6</td>
<td>10.6</td>
<td>-14.4</td>
</tr>
<tr>
<td>Avg duration pse employment for program leavers (p)</td>
<td>%</td>
<td>-10.4</td>
<td>9.4</td>
<td>-9.6</td>
</tr>
<tr>
<td>Avg dur. pse employment for prgm lvrs in reg wrk (p)</td>
<td>%</td>
<td>-1.1</td>
<td>-15.8</td>
<td>-12.8</td>
</tr>
<tr>
<td><strong>5. Job creation investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average cost-subsidies per new job created (c)</td>
<td>%</td>
<td>-6.9</td>
<td>9.1</td>
<td>16.9</td>
</tr>
<tr>
<td>Prop of placements still employed at follow-up (r)</td>
<td>%</td>
<td>4.0</td>
<td>0.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Among jobs promised-prop actually created (p)</td>
<td>%</td>
<td>-1.6</td>
<td>3.1</td>
<td>-13.3</td>
</tr>
<tr>
<td>Among job created-prop fill by prsn frm trgt grp (p)</td>
<td>%</td>
<td>-13.2</td>
<td>9.6</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>6. Work sharing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average cost per job saved (c)</td>
<td>%</td>
<td>14.2</td>
<td>49.6</td>
<td>-26.1</td>
</tr>
<tr>
<td>Proportion of jobs at risk which are saved (r)</td>
<td>%</td>
<td>-20.9</td>
<td>-38.3</td>
<td>-2.8</td>
</tr>
<tr>
<td>Average cost per job at risk (s)</td>
<td>%</td>
<td>8.1</td>
<td>9.3</td>
<td>20.1</td>
</tr>
<tr>
<td>Avg number of months employees are subsidized (p)</td>
<td>%</td>
<td>-13.5</td>
<td>-4.2</td>
<td>33.7</td>
</tr>
<tr>
<td><strong>7. Early retirement subsidy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg cost per pers entering early retirement (s)</td>
<td>%</td>
<td>-4.7</td>
<td>3.5</td>
<td>12.9</td>
</tr>
<tr>
<td>Avg monthly early retire subsidy per person (s)</td>
<td>%</td>
<td>-3.3</td>
<td>1.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Employ fund share-early retire commit in cal yr (p)</td>
<td>%</td>
<td>1.6</td>
<td>-1.5</td>
<td>7.2</td>
</tr>
<tr>
<td>Average months until regular retirement (p)</td>
<td>%</td>
<td>2.2</td>
<td>-1.0</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>8. Employment exchange</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average number of referrals per job placement (r)</td>
<td>%</td>
<td>-9.4</td>
<td>-13.3</td>
<td>-13.4</td>
</tr>
<tr>
<td>Average number of days until reemployment (p)</td>
<td>%</td>
<td>4.5</td>
<td>-6.3</td>
<td>-0.6</td>
</tr>
<tr>
<td>Average cost per employment exchange visit (p)</td>
<td>%</td>
<td>2.0</td>
<td>-0.2</td>
<td>-3.2</td>
</tr>
<tr>
<td>Average cost per employment exchange registrant (p)</td>
<td>%</td>
<td>-6.9</td>
<td>10.4</td>
<td>-2.5</td>
</tr>
<tr>
<td>Average number of days until vacancies are filled (p)</td>
<td>%</td>
<td>-0.5</td>
<td>9.4</td>
<td>-3.3</td>
</tr>
</tbody>
</table>
A second summary approach which could directly aid counties directly making their budget allocation decisions would be to compute the weighted average cost of alternative programs, where the weights are the fraction of the total client population served by the various programs. The result of this computation is the weighted mean cost across programs. This summary measure can be used to directly guide the counties in the optimal allocation of their county Employment Fund budget across programs, because reallocating participation to lower cost programs will lower the weighted mean cost and increase overall cost effectiveness of programs.

A third approach to transforming the quantitative information in the PI system into qualitative information for management purposes is summarized graphically in Figure 4. This diagram assumes that the values of PI vary across counties so that there is some distribution of PI values. Within this distribution or each PI it will be possible to set up ranges of critical values and allow the computerized management information system produce a report suggesting management action based on a county labor center value of a PI. The example depicted in Figure 4 suggests that PI values close to the national mean value would indicate performance classified as “normal” with the suggested management action to provide the average budget increase. PI values in the “success” range would yield X percent budget increase, while those in the “excellent” range would yield a Y percent budget increase. PI values in the “Conflict” range would result in an X percent budget decrease, while a PI value in the “crisis” range would result in management assistance being sent from the NLC. This suggestion represents a qualitative approach to budget allocation. Description of a somewhat more technical and quantitative approach follows.

8.3 Allocation of funds

The Employment Fund has two principal parts: the decentralized part—about 60% of the total in 1993—and the centralized part. The centralized part is reserved for special projects funded at the discretion of the Ministry of Labor, these include: the industrial adjustment service, job clubs, and special measures for high unemployment regions like employment companies. The decentralized part of the Employment Fund is allocated by a formula approved by the National Labor Market Committee (NLMC). It is expected that the NLMC will approve incorporation into the algorithm for allocation of the decentralized Employment Fund information about performance in operating programs as summarized by PI.

In 1991 the formula for allocating the decentralized Employment Fund had the following six factors (the weight for each factor is in parentheses): the county share of total registered unemployed in Hungary (9/20), the county share of total population in Hungary (1/10), the county share of school leavers in Hungary (1/10), the county share of registered unemployed who are unskilled in Hungary (1/20), the county share of registered unemployed who had worked in declining industries in Hungary (3/20), and the previous distribution of Employment Fund money (3/20).
Figure 4
Management Response to Performance Indicator Values

- Excellent: Y% Budget Increase
- Success: X% Budget Increase
- Normal: Average Budget Increase
- Conflict: X% Budget Decrease
- Crisis: NLO Management Assistance
In 1992 the budget allocation formula was reduced to have only four factors—one prime factor and three supporting factors. The prime factor was county share of the nation’s economically active population, i.e. in the labor force. The supporting factors (with weights in parentheses) were: the county share of total registered unemployed in Hungary (3/5), the county share of long term unemployed in Hungary—long term unemployed means registered 6 months or more as unemployed (1/5), and the county share of school leavers in Hungary (1/5). These three secondary factors were combined and applied to the primary factor.

For 1993 the only change in the algorithm for allocation of the decentralized employment fund which was made from 1992 was to change the factor "county share of the nation’s school leavers" to the factor "county share of the nation’s unemployed school leavers."

It is expected that one or two summary measures of PI of the type suggested above in Section 8.2 will be added to the algorithm for allocation of the decentralized Employment Fund. Together these factors will be assigned a weight no greater than 10 percent. It is imperative that this be done to give importance to the PI system. If even just 10 percent of the decentralized Employment Fund allocation depends on measures of program performance a great positive incentive for efficiency will be created. Finally, to give stability to the planning process for counties, it will be proposed to the NLMC that the budget allocation process for the decentralized Employment Fund automatically fund each county at level not less than about 85 percent of the previous year’s allocation, with the selected algorithm used to distribute only the remainder of the decentralized Employment Fund.

9. Summary

This paper begins by describing the context of labor market support programs in post-socialist Hungary. It then proceeds to review the rules and aims of the active labor market programs. Next the comprehensive and integrated management and planning system, based on a set of performance indicators (PI) for these programs, is described. This is followed by presentation of the PI to be used for monitoring active labor programs in Hungary together with a discussion of the politics of selecting and implementing the PI system. Also given is an explanation of how the PI will be used with administrative and follow-up data. The system of PI is designed to monitor performance while allowing decentralized decision making and avoiding adverse incentives. The system is designed to promote superior performance through positive incentives, and to help identify and correct poor performance through technical assistance and/or sanctions. The paper shows how the PI allow a standardized assessment of program performance across the 20 administrative districts in Hungary. An example is given which shows how demographic data on clients and indicators of regional unemployment are used to adjust national standards for local conditions. Finally, the paper explains how information from the performance assessment may be used in the annual planning and budget allocation process for Employment Fund programs.
Appendix A
Example Retraining Follow-up Survey

Dear (name of retraining participant):

This is a follow-up survey about your experience since you participated in the (course name and number) retraining course at (name of training institution) arranged for you by the Labor Center. Please respond to this survey by circling the letter corresponding to the best answer or filling in the available space with your answer to each question. Return this questionnaire to the Labor Center in the enclosed stamped addressed envelope.

1. How would you rate the quality of training organized for you by the labor center?
   a. Excellent
   b. Good
   c. Fair
   d. Poor
   e. Useless

2. Could you get regular employment after the training?
   a. Yes
   b. No (Go to question 11)
   c. Got self employed (Go to question 11)

3. When did you first get employed after the training course ended?
   a. Within two weeks
   b. After two weeks but within 3 months
   c. After 3 months

4. What is the name of the employer where you first got a job, and in what city/town/village is the employer located?

   Name of employer: ________________________
   City/town/village: ________________________

5. Was this first job expected to last indefinitely or for a definite period of time?
   a. indefinite
   b. definite

6. Are you currently employed?
   a. Yes
   b. No (Go to question 11)
   c. Self employed (Go to question 11)

7. What is your present occupation?

   Name of occupation: ________________________

8. What is your monthly gross earnings on this job?

   Forints per month: _______

   (Interviewer: if an exact forint amount is not given ask if gross monthly income is in one of the following categories.)

   a. less than 8,000 Ft/mo
   b. 8,001-10,000 Ft/mo
   c. 10,001-15,000 Ft/mo
   d. 15,001-20,000 Ft/mo
   e. 20,001-25,000 Ft/mo
   f. 25,001-30,000 Ft/mo
   g. 30,001-50,000 Ft/mo
   h. over 50,000 Ft/mo
9. How would you rate the value of the training which was arranged for you through the labor center in helping you to get this job?
   a. Extremely valuable   d. Of little value
   b. Very valuable        e. Worthless
   c. Valuable

10. How useful to your current occupation is the training which you received through arrangement by the labor center?
    a. Extremely useful     d. Of little use
    b. Very useful          e. Useless
    c. Useful

11. Other observations or comments:
    _____________________________________________________________
    _____________________________________________________________
    _____________________________________________________________

    Date - Year: ______ Month: _________ Day: ______
    Signature: ________________________________
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