

**What long-term effects on
employment prospects and migration?
The case of Hungary**

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- Counter-cyclical fiscal policies made during the crisis require restrictions in most EU countries now
- Public sector wages were severely cut in several member states → the relative wages of public sector workers fell substantially

Virtually no change or improvement: Sweden, Germany, Netherlands, Estonia

Minor decline: Portugal, Ireland

Drastic cuts: Greece, Hungary, Latvia, Romania, Spain

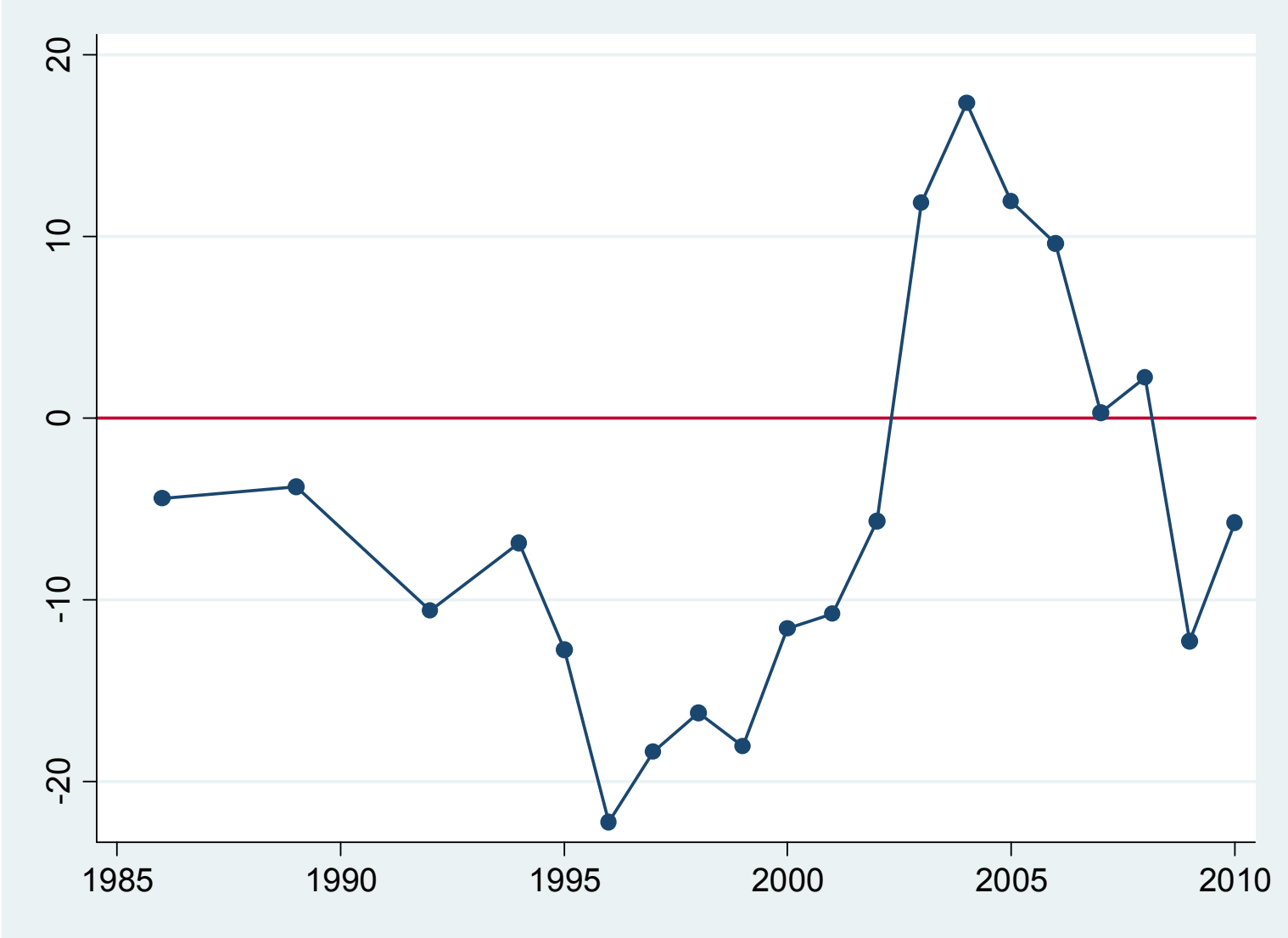
- Fiscal imbalances in the latter group of countries will hardly allow substantial pay rises in the foreseeable future

Why Hungary?

- Hungary has a long record of public sector wage increases and wage cuts - the PUB-PRIV gap fluctuated in a very wide range of between -25 and +20 per cent
- The cuts brought the relative wages of PUB workers to very low levels for protracted periods
- It is therefore easier to identify the implications if low public sector wages

Regression-adjusted public-private wage gap 1986-2010

(percentage points, controlled for gender, age and education, private sector = 0)

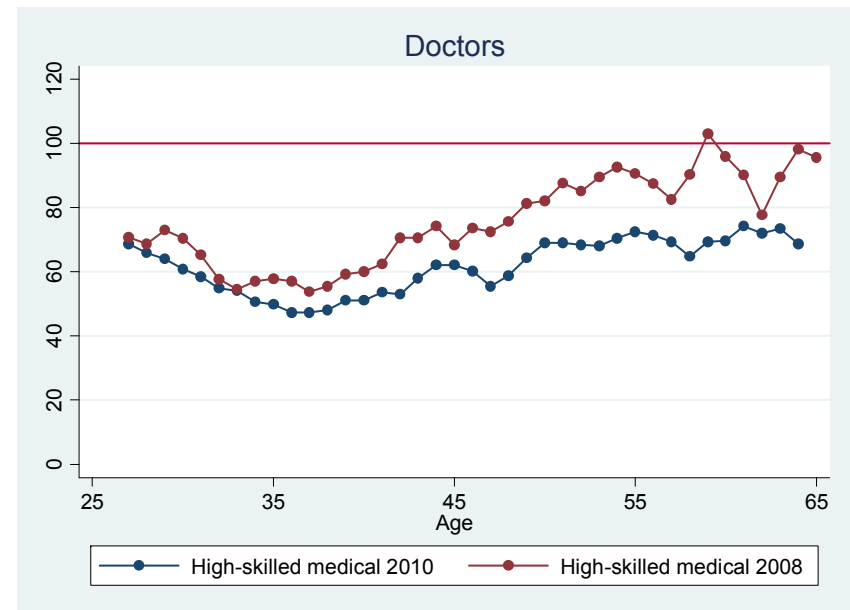
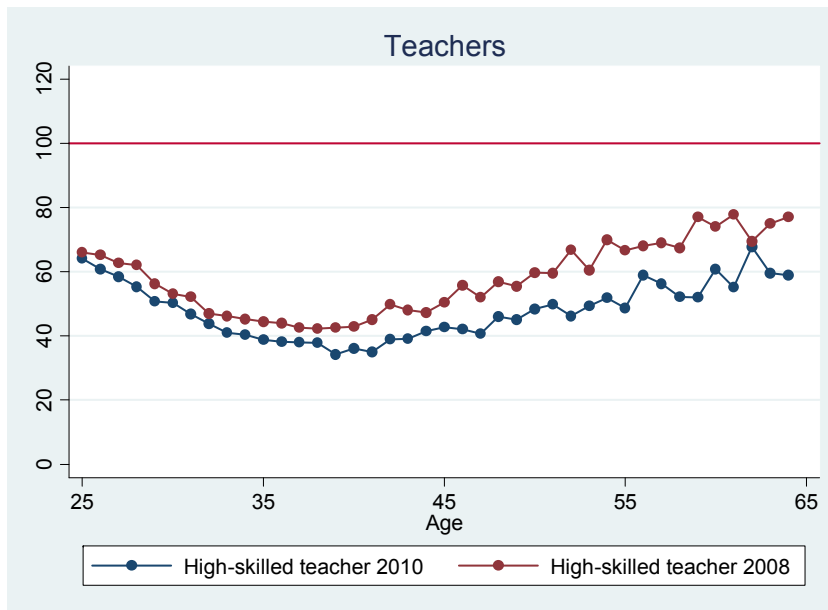


Wage level

2010: Prime age teachers and doctors earned less than 40% and 50%, respectively, of what similar workers made in the private sector

Wage path

The U-shaped *age-relative earnings* profiles (characteristic of many EU countries) further reduce the value of public sector jobs for most people



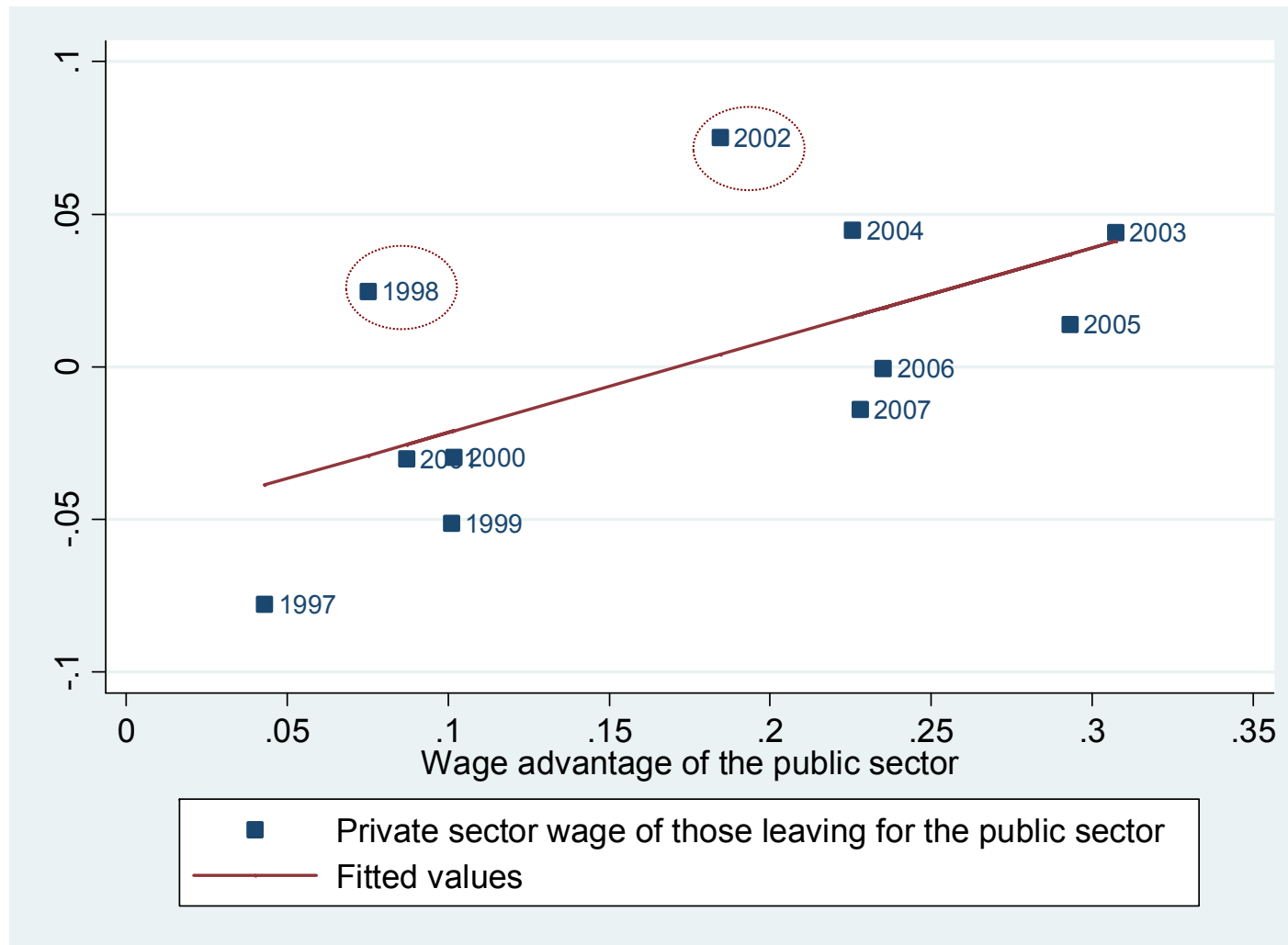
Implications of low pay (1)

Adverse selection to public sector professions

- The example of teachers: (Varga 2008)
- Worse than average applicants enter teacher training
- Worse than average students graduate as teachers
- Worse than average graduates start teaching
- Worse than average young teachers stay in the profession

Implications of low pay (2)

Poor quality of entrants from the private sector



Note: 1998 and 2002 were election years bringing about change in the governing party and massive cleansing

Implications of low pay (3)

Out-migration

- Frequent among high-skilled would-be civil servants and massive among doctors since EU accession
- Physicians:

Romania: almost 10 per cent have emigrated since 2007 (Holt 2010)

Hungary: 500 to 600 doctors left annually in 2004-2008, which compares to 750-800 graduates per year (Kőmúves 2008)

Czech Republic, about 250 doctors leave annually according to chamber officials (Holt 2010)

Despite wage increases in 2012 (CZ, SK, HU) out-migration seems to continue

Implications of low pay (4)

Corruption

- Low pay is a risk factor in all segments of the public sector and part of a ‘wrong equilibrium’ in medical services
- Physicians: official wages are adjusted for informal side-payments (tips and gratuities) and vice versa
- Evidence of massive bribery in less affluent European countries

Albania: Burak and Vian (2007)

Bulgaria: Delcheva, Balabanova and McKee (1997)

Greece: Liaropoulos et al. (2008)

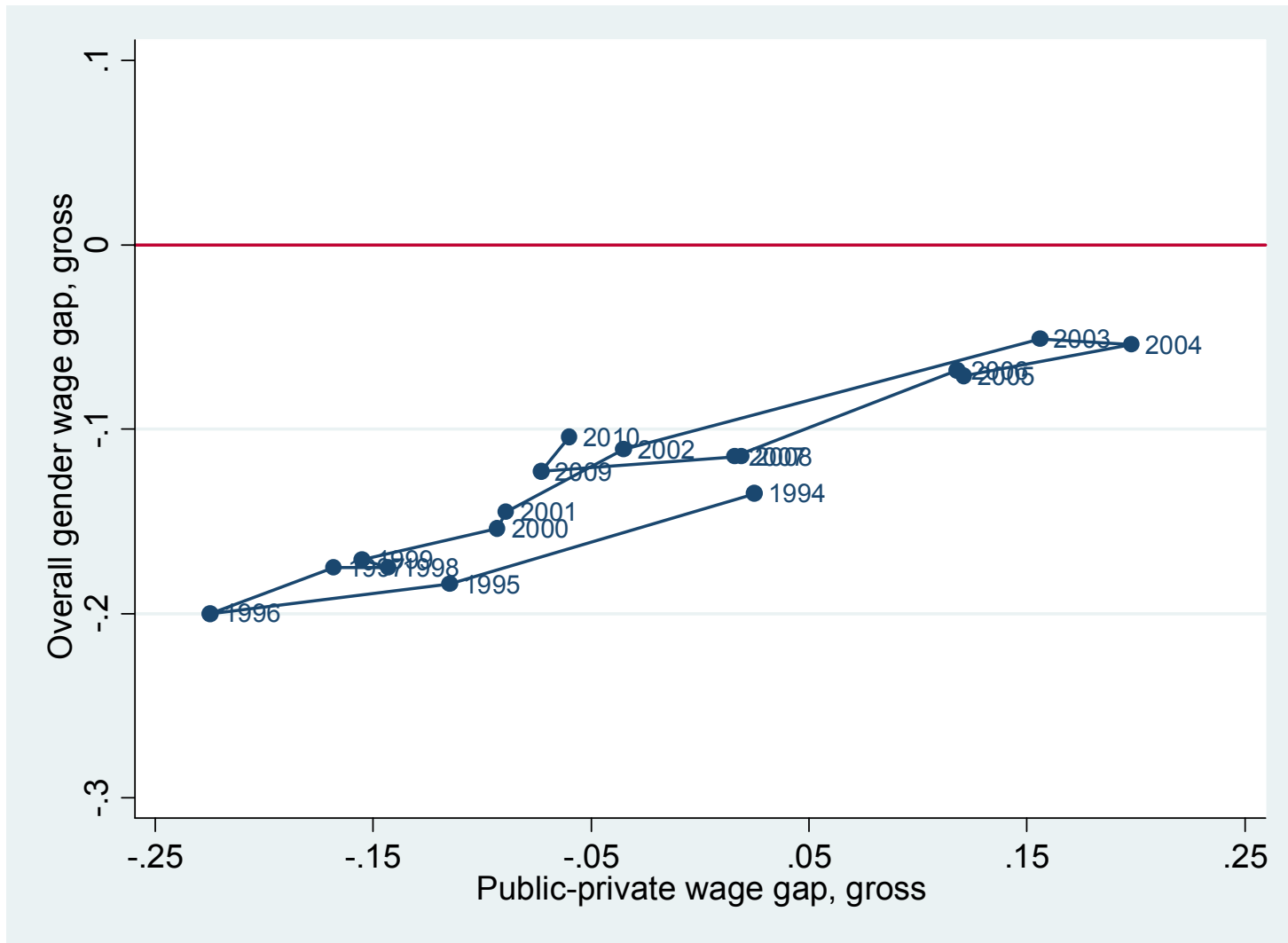
Hungary: Bognár, Gál and Kornai (1999)

Poland: Chawla, Berman and Kawiorska (1998)

Russia: Sabiryanova and Zelenska (2011)

Implications of low pay (5)

Growing gender inequality



Policy issues

- Is it possible to trade off jobs for wages without damaging the quality of services? (esp. in education and civil service)
- How to raise additional funds? (e.g. co-payment in health, tuition fees in education)
- Can further outsourcing and privatization of the public services help?
- Long run: is it reasonable to index public sector pay to private sector wages?