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THE CONCEPT AND MEASUREMENT OF UNEMPLOYMENT:
PRESSURE FOR RADICAL CHANGE IN HUNGARY'S EMPLOYMENT STATISTICS

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THE CONCEPT AND MEASUREMENT OF UNEMPLOYMENT:
PRESSURE FOR RADICAL CHANGE IN HUNGARY'S EMPLOYMENT STATISTICS

by

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The biggest difference between eastern European systems of compiling labour statistics and those recommended by the International Labour Office and the Organisation for Economic Co-operation and Development lies in the concept and measurement of employment. In accordance with recommendations by the Council for Mutual Economic Aid for Communist Countries (COMECON), Eastern Europe's official labour statistics developed in the last four decades were based on full employment, and ignored unemployment. As a result the concept of an economically active population was reduced to a country's so-called active earners. This approach was rooted in official ideology and propaganda, and by the end of the "extensive period of development" in the mid-1970s, overt unemployment held only marginal importance in Hungary. This started changing during the mid-1980s when political pressure lessened and unemployment increased. For the first time, Hungarian statisticians faced the problem of defining and measuring unemployment.

I. APPROACHES TO ECONOMIC ACTIVITY: HUNGARY VS. ILO-OECD

Differences between Hungary's concepts of economic activity until recently and those based on the resolutions adopted at the 13th International Conference of Labour Statisticians (ICLS) in 1982 (and then incorporated into the ILO's recommendations) are striking:

- Instead of "employed", the most important concept of economic activity is "active earner";
- The concept of unemployment does not appear in traditional Hungarian statistics;

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- The ILO term "economically active population" is replaced by "active earners" or "working-age population";
- The working-age population has an upper age limit, i.e., the age of retirement (60 for males and 55 for females);
 - Instead of the residual category of "economically inactive population", the concepts of "inactive earners" and "dependents" are used.

Although there would seem to be some similarities between the two approaches, the differences are crucial -- more so than one might expect. Because the two systems were developed under very different conditions to serve very different objectives, they reflect contradicting approaches to economic activity.

1. Objectives

ILO concepts of economic activity are designed to reflect the behaviour of individuals in the labour market and, in particular, their willingness to take a job. They are based on a strict system of criteria which provides information on people's intentions to find jobs and their success or failure in doing so. Consequently the ILO's definition of an economically active population includes everyone available for work at a certain time, i.e., those employed and unemployed.

Conversely, Hungary has until now based its concepts of economic activity on state institutions rather than individuals. Their purpose was to monitor the realisation of centrally planned large-scale social and economic projects. Under this system the individual was regarded as a passive subject whose life's course was determined by the central planning mechanism. For statistical purposes, the population was divided into groups of:

- under working age,
- working age,
- over working age (i.e., over retirement age).

Ideally, when the economic system had reached its "optimal" state, these groups were to be covered respectively by statistical concepts of:

- dependents,
- active earners, and
- inactive earners.

The first category can be identified in the optimal case with children, the second with young and middle-aged adults, while the aged are assumed to enjoy social protection. On this basis some "objective" indicators may be compiled, such as the level of employment, i.e., the ratio of active earners to persons at working age -- irrespective of whether those people want to work or not.

The system approached reality as adult women were drawn into full-time jobs, child-care facilities like kindergartens and afternoon schools were

• provided, and pension schemes were extended to all persons over the working age: these developments decreased the number of dependents at both working and retirement ages.

However, the scheme became confused when:

- the active earner status was extended when retirement age was reached and retirement often postponed;
- people retired and became inactive earners before retirement age (e.g. age exemption for disability);
- a population of employed pensioners accumulated when pensioners were allowed to take jobs;
- child-care allowances (later child-care fees) were introduced which enabled one parent to stay home with a baby for up to three years.

Because there was no proper order of priorities in the system, it was difficult to cope with and account for new and changing categories. While economic activity was considered as a means of measurement, work actually performed was not distinguished in the statistics. This implied that employed students were regarded as dependants while employed pensioners were included among inactive earners, as were those receiving child-care allowances who stayed at home with a baby (although their employment was maintained).

2. Priorities and Connections

An important feature of ILO-OECD concepts is the attempt to establish a one-to-one link between production and its corresponding employment. The concept of employment holds absolute priority: a person working to produce goods or services (or holding such a job but temporarily absent from it) during the reference period is regarded as employed, even if the number of hours worked and/or the income seem insufficient to make a living. The only criterion is that the activity complies with the System of National Accounts (SNA) of the United Nations. The definition of unemployment implies that no such activity is performed. The relationship between production and employment manifests itself in this case too, but obviously in a negative way.

In contrast, Hungary's concepts of economic activity emphasised the state's role in taking care of its dependents by ensuring proper status and living conditions, while the production-employment relationship was rather loose. Even in the case of active earners, no such link existed, and not everyone working was counted as an active earner. Again, this was caused by the system's diverging priorities. Instead of a list of strict definitions of concepts, there was a list of descriptions:

- a) "Active earners are those persons who perform paid activity, possess income, do actually work at the given time, or have a job; consequently, the employees of enterprises, institutions, offices and co-operatives and the members of co-operatives belong here. In addition, here belong the self-employed and his (her) employees as well as the family workers of non-agricultural self-employed...

Furthermore, casual workers, day-labourers and agricultural family workers having worked at least 90 days during the year are also counted here. ... The number of active earners is calculated on the basis of the adjusted number of the legal staff (which excludes those receiving child-care allowance and pensioners)... Here belong also those spending their term of notice or their prolonged term because of re-organization as well as those performing some work for public use... The staff of active earners does not include those job-holders who enjoy pension or receive child-care allowance."

- b) "Inactive earners are those persons who do not perform earning activity, but do possess earnings or income. Inactive earners are those receiving old-age pension,... child-care allowance,... and also the so-called other inactive earners who make their living by letting or leasing their estate, house or dwelling...(etc.)."
- c) "In the group of dependents are counted all persons who belong neither to the active nor to the inactive earners, as they possess in general no income or earnings and are cared for by an individual or an institution. Such are the children under 14 years, the 14-year-old and older persons attending the normal course of a secondary school or a university,... those working only in their own household... (etc.)."

The individual's activity is not important in this system; the link to state institutions is what matters.

3. Means of Measurement

For measuring economic activity the ILO-OECD recommend using the concept "currently active population", i.e., a short reference period, provided the labour market is not markedly seasonal (in which case the concept of "usually active population" is recommended). The length of the recommended reference period may be a day or a week, its goal being to provide a snapshot (or series of snapshots) of current employment and unemployment situations. The use of this concept means that in defining and measuring employed, unemployed and economically inactive populations on the basis of the so-called labour force framework, a currently active population may also be identified.

The labour force framework uses specific rules for dividing the population into three mutually exclusive and exhaustive categories: employed, unemployed and economically inactive. Under this framework three criteria must be satisfied for an individual to be considered unemployed:

- "without work" (which excludes the possibility of being employed or self-employed);
- "seeking work", and
- "currently available for work", (which exclude economic in activity).

These criteria may best be checked and the employed, unemployed and economically inactive populations identified by using a properly designed questionnaire to interview households. For this purpose, specific household sample surveys were developed, usually called labour force surveys.

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Hungary's system of collecting employment statistics was not designed to monitor current labour market situations. Although investigations into mid-year production in the so-called socialist sector (comprising all state-owned enterprises and co-operatives) included a measurement of active earners working there, their main purpose was to indicate the dynamics and productivity of the sector. The most important goal in measuring economic activity was to compile labour force balances by comparing resources and the use of labour through exploring reserves in the manpower being used under the country's one- and five-year plans.

The Hungarian system was not based on household surveys, but rather on the availability of mandatory statistical records kept by all enterprises and institutions.

Although data on economic activity was gathered in Hungary in household surveys (household budget surveys, income surveys, time budget surveys, etc.), such information -- with the exception of the decennial population censuses -- did not play an important role in compiling labour force balances, and was not generally used to produce current employment data.

Under such systems economic activity was not determined by a strict set of questions as in the ILO labour force framework; instead of considering actual facts and conditions, the labels of administrative records or the conclusions of an interviewer or respondent were accepted.

II. MEASURING UNEMPLOYMENT IN HUNGARY

Poor economic growth and a failing centrally planned economy saw unemployment manifest itself in Hungary during the 1980s. Its existence was gradually accepted by the labour authorities, who established a system to help the unemployed. An unemployment allowance was introduced in 1989, but special kinds of assistance, such as a retraining allowance, had already existed from the mid-1980s. The most important achievement in this area was the Employment Act, approved by Parliament in 1990, which set up a modern unemployment scheme similar to that in OECD countries.

There exists a temptation for statisticians in transition countries to simply adopt unemployment data provided by labour administrations on the basis of the new unemployment system, and to supplement the existing concepts with them in order to approach ILO-OECD recommendations. This way, previous data collection procedures could continue to be utilised, time series continued, and the expense of improving data collection systems avoided. In 1990 the Hungarian Central Statistical Office adopted another approach when preparations began for the design and implementation of the Hungarian Labour Force Survey to measure employment and unemployment.

1. Registering Unemployment in Hungary

a) An embryonic data base of registered unemployment has existed in Hungary since before official acceptance of unemployment and legal unemployment assistance. Introduced by the labour administration in 1985, this system

• involves collecting data on turnover at regional labour bureaus (employment agencies), as well as on the numbers of vacant jobs. The data contains information on whether the job-seekers have a job or not. (The corresponding number of unemployed remained insignificant, however, until the introduction of the unemployment allowance in 1989: figures at year's-end were 600 in 1985, 6000 in 1986, and 10,000 in 1988). The basic registration document is known as an "Employment Service Form", completed in co-operation with the person looking for work. This contains basic personal information and some data on employment (job-holder or jobless), and on earnings and jobs. This method of data collection is not totally objective, and the practices of employment agencies differ across regions.

The number of unemployed clients registered with an agency is sometimes seen as an indicator of that particular bureau's performance, thus agencies may be interested in registering at least a certain number of unemployed. However this contributes little to the basic activity of the agencies and increases their administrative burden.

Even the best register contains some bias, since in many cases there is no feedback when a registered unemployed person finds a job. To reduce these discrepancies, Hungarian authorities ask the unemployed to present themselves every month at the same agency. If a person fails to appear, he or she is deleted from the register. Obviously, some may find public employment agencies inefficient, and this may be a reason why they fail to show up. Discrepancies in the system, however, can only be eliminated if all unemployed people register themselves, and the length of the checking period reduced to zero. The corrected register could reflect the dynamics of data at least under stable conditions. The registration system has been developing over the past few years and this is obviously reflected in the data, as is the changing inclination of the unemployed to register themselves and the actual growth in unemployment. (Regulations when completing an Employment Service Form also change often). All these modifications highlight the limitations of comparisons and analyses of information gathered from administrative agencies.

The greatest deficiency in data attached to the turnover of job-seekers provided by employment agencies in Hungary is caused by the fact that their clientele traditionally comprises low-quality labour, thus only a segment of the labour market is represented.

b) Monetary incentives motivated more of the unemployed to present themselves after the introduction of the unemployment allowance in 1989 and later the unemployment benefit scheme provided for under the Employment Act of February 1991. Apart from the actual spread of unemployment, this is apparently responsible for part of the manifold increase in the numbers of registered unemployed in the past few years. (There were 145,000 registered unemployed, the majority of them benefit claimants (116,000), in March 1991).

Under Hungary's unemployment scheme, those who have worked previously receive benefits for a period ranging from six months to two years, while previously unemployed people starting up new businesses get an assistance for six additional months. Unemployed people participating in retraining programs

• receive compensation for earnings and costs, new entrants to the labour market may obtain unemployment allowance for six months, and those losing their job three years before reaching eligibility for pension may receive a preliminary pension. To become eligible for unemployment benefits, a person must:

- have worked at least one year in the last four years, during which employment insurance was paid (this entitles the person to unemployment assistance for up to six months; each additional year worked entitles the person to a further six months, with a two-year limit. The benefit amounts to 70 per cent of the last earnings in the first half of the unemployment period and 50 per cent in the second);
- be under the retirement age;
- comply with the rules of the agency.

The concept of "unemployed receiving benefit" does not exclude all earning activity: a person may work for payment provided the salary does not exceed the minimum wage. However people seeking a job and available for work are excluded if they:

- are over the retirement age;
- did not have some formal employment/did not pay employment insurance within the last four years;
- have exhausted the maximum period;
- have not yet exhausted this duration, but have had their benefit terminated due to unsatisfactory co-operation with the agency, or for refusing either a job corresponding to their qualification or a retraining possibility;
- accepted a retraining possibility which included receiving assistance above the minimum wage;
- are new entrants to the labour market who have used up their six months' allowance.

It is obvious that data on the "unemployed receiving benefit" are no longer restricted to low-quality labour; in theory they cover the entire active working-age population. However -- as is easily seen from the definition -- they still do not include all the unemployed. On the other hand, people in low-income work may be counted, as well as those working in the irregular economy. The conclusion complies with that of international literature which states that no system of unemployment registration can provide a fully comprehensive picture of unemployment. The registered unemployed and the unemployed measured by statistical survey methods are two different concepts; in general they only partially overlap. Hungary should be prepared for this, too.

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2. Experiments with the Statistical Measurement of Unemployment

a) The concept of unemployment was first used in Hungarian statistics in the 1990 Population Census. An attempt was made to insert unemployment into the traditional system of concepts, in other words, to develop a "Hungarian version" of the ILO-OECD concept by excluding, for example, students and pensioners. Two types of the unemployed were considered in the 1990 census:

- "The 'first-time new entrant' is a person who has finished his/her studies and has not yet performed work for payment but is looking for a job or wants to start an own enterprise, and has made some steps for this purpose by contacting friends or employed agencies, or via advertisements, (etc.)";
- "An 'unemployed (person) looking for job' is one who had performed work for payment earlier, but at present has no job, is looking for a job or wants to start an own enterprise, and has made some steps for this purpose by contacting friends or employment agencies, or via advertisements, (etc.)"

Although these definitions look rather similar to those of the ILO, they were put into practice not by questions investigating certain facts on employment but by questions on the personal opinion of the respondents on their status. It is likely that people describing themselves as unemployed had actually no formal employment at the time of interview. It is, however, also very likely that a number of people performing some illegal activity (i.e. working without a permit or paying no income tax), as well as some making their living as small entrepreneurs, described themselves as unemployed. No question on availability for work was included in the questionnaire. Despite all these uncertainties the results of the 1990 Population Census on the number of unemployed (110,000 persons) should be regarded as a better estimate than that obtained from the unemployment register (24,000) of early 1990. Unfortunately, the two data sets cannot be matched, since there were no questions on registration in the Census.

b) The technique of labour force surveys, developed first in the United States (Current Population Survey, BLS), is used widely in OECD countries (it is an obligatory survey in EUROSTAT member countries), and also in many developing countries. The labour force survey is a proper statistical tool with the following characteristics:

- providing simultaneous, comprehensive and systematic monitoring of employment, unemployment and underemployment, by
- allowing full application of ILO-OECD concepts;
- using survey techniques which minimise subjective bias in classification and provide freedom for a national definition of the concept of unemployment (the category of unemployed does not occur directly in the questions and thus it is not the respondent who makes the classification);
- providing important additional information, as employment data are collected in household/family environments.

As mentioned, preparations for the development of the Hungarian Labour Force Survey began in mid-1990. The questionnaire was tested in January 1991 and an experimental survey was conducted on the full sample (30,000 households) in April, May and June 1991. The survey is scheduled to provide quarterly information on 30,000 households (i.e. about 60,000 persons) from 1992. (10,000 households will participate each month and will be interviewed four times a year).

It took a relatively short time to design the survey and implement the experimental programme, and costs were rather moderate. This would have been impossible without:

- a data collection network developed previously for similar purposes (i.e., for collecting data on households); the use of this system considerably reduced expenses. This USHS -- Unified System of Household Surveys -- used at the HCSO since 1976, comprises two continuous probability samples selected from enumeration districts of the Population Census. Various HCSO surveys on household budgets, income, time budgets, health, etc. are conducted on these samples by a network of experienced interviewers on a fixed schedule, and are controlled by the 20 regional (county) HCSO offices. The two samples together (30,000 households) seemed a suitable size for the experimental Labour Force Survey. From 1992 a new USHS sample will be taken from the 1990 Census; its area representation was improved for the purposes of the LFS;
- experience which showed a willingness of the population to co-operate; it was thus unlikely that results would be biased due to a high non-response rate. (In the 1987 income survey on 20,000 households, the rate was only 4-5 per cent);
- an ILO-recommended system of concepts and survey techniques already practised in several countries. Adopting these was made easier through help from the statistical institutions in some of these countries;
- pressure from Hungarian government agencies and several international institutions such as the IMF and the World Bank to adopt market-economy standards.

The Hungarian Labour Force Survey uses two sets of questionnaires, the first concentrating on the socio-demographic data of households and individuals, the second on economic activity of individuals and comprising 20 questions, 18 relating to economic activity. The last two questions try to establish data on registered unemployment by inquiring if the respondent is registered or receives an unemployment benefit.

The experimental questionnaire was aimed at measuring unemployment by ILO-OECD standards, and thus used ILO-OECD concepts of economic activity and not those used traditionally (active earner, inactive earner, dependent). In its present form, the Hungarian survey:

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- considers only the population aged 15-74;
- defines working one hour for payment per week as the lowest limit of employment;
- includes self-employment (e.g. on small agricultural plots or farms) only if goods are produced, at least partly, for the market. (This is a deviation from ILO recommendations as well as from Hungarian GDP calculations where consumption of agricultural goods and, in the latter case, construction work for housing, are taken into account regardless of their market connections);
- uses a reference period of one week. The same period is used where availability for work is concerned, but it is increased to four weeks where respondents are looking for jobs;
- seeks information about job-seeking only from those having worked less than one hour; only those having worked less than 36 hours are questioned on their intention of working more;
- contains some information on multiple job-holding;
- regards the discouraged worker as outside in the labour force;
- regards those on child-care benefit as employed.

Special features of Hungary's case (the novelty of the survey's approach, the importance of own consumption, the widespread labour-hoarding, etc.) imply that a thorough examination of some of these points is necessary.

The main objective of the labour force survey is to provide a comprehensive picture on the number of the unemployed for a certain period in time. Besides this, it asks job seekers about the duration (number of weeks) of their job-search and asks all respondents without a regular job about the latest time they had one. However, it must be assumed that these retrospective questions provide a relatively unreliable estimate of the duration of unemployment.

A major advantage of the Hungarian unemployment register, on the other hand, is its ability to follow individuals in the register, by means of their personal identification. This makes possible to provide information on flows in and out unemployment as well as on the duration and incidence of unemployment. The identification is based on the eleven digit code called the 'personal identification number', developed for population registration purposes, and associated with each individual from birth till death in Hungary. This comprehensive identification system, introduced in 1981 and used widely for several administrative purposes, is now being abandoned following a recent decision of the Constitutional Court on human rights grounds. At the present time a special unemployment register identification code needs to be developed to avoid illegal claims in the unemployment benefit system. Hopefully this could be utilised for statistical purposes as well and could safeguard the advantages of the Hungarian register, in this limited area. But direct matching of individual files of different data bases might become impossible, due to the above decision. This implies a significant loss for statistics.

III. CONCLUSIONS

1. Human resources are of primary importance for a successful transition. Consequently decision-makers -- including the public -- need comprehensive and reliable information on labour market situations and on the nature of employment and unemployment. This is underlined by Hungary's unpreparedness for the negative consequences of radical change, and by its limited financial resources to manage unemployment.

2. Public employment agencies provide a basic source of information on unemployment. However their registers alone are not totally reliable. The register of people receiving unemployment benefits -- also an indicator of activities in the employment administration -- could be considered an important data source in its own right.

3. In addition to information on unemployment from employment agencies, other labour statistics have become available from household surveys; both approaches are still being developed. Of the two, the agency-based registers are more restricted in nature; household surveys tend to be more comprehensive and flexible, and therefore more suitable in following ILO guidelines. The Hungarian register on the other hand could provide -- by use of personal identification codes -- important information about the duration and incidence of unemployment. It is imperative to preserve this characteristic of the benefits register, despite the collapse of the system of personal identification numbers.

4. Traditional Hungarian concepts of economic activity and their ILO-OECD counterparts differ basically in spirit and approach, and these differences strongly influence the goal, content, and system of measurement. This is highlighted when an entire system is adopted, i.e. when Hungary tries to measure unemployment using the Labour Force Survey.

5. Whether Hungary could graft unemployment into its traditional concepts of economic activity would depend on how strict a definition were used as well as the system of its measurement. There are two possibilities:

a) Among the three main categories, unemployed receiving benefit could be counted as inactive earners, and other unemployed as dependents. (A similar method was used in Hungary between 1986 and 1989 when the registered unemployed were counted as dependents);

b) The three categories (active earners, inactive earners, dependents) could be supplemented by additional subdivisions of unemployed (as in the case of the 1990 Hungarian population census).

6. Other changes, in the same spirit of "reform", could use data from unemployment registers to modify the traditional categories and thus approach the ILO-OECD recommendations more closely. These could include supplementing the economically active population by counting pensioners and students seeking jobs (at public employment agencies) among the unemployed, and by adding pensioners and students who work to the active earners' category. The economically inactive population could be determined by the total of inactive earners and dependents. (Categorising those receiving child-care benefits or

• allowances is not clear cut; in principle, they could be regarded either as economically active or inactive).

7. This approach may be justified on the basis that, from a Hungarian viewpoint, the ILO-OECD concepts tend to concentrate on economic aspects and ignore the social side but when it comes to living standards, it is far from irrelevant if an employed or unemployed person is a middle-aged head of a family, or a young student or a pensioner. This "social" approach is significant also because mass unemployment is an unusual phenomenon in Hungary -- as in the rest of eastern Europe -- which could lead to severe social conflict.

8. There may, however, be a case against such a hybrid solution: when attempting to establish a sound methodology, priorities should first of all be pin-pointed -- in this case priorities regarding economic activity shaping the labour market, and the approach to social protection, i.e., ensuring certain living standards and full employment. This depends on Hungary's strategy in its transition to a market economy. As mentioned, economic concepts until now have reflected the needs of a planned economy. Some of its goals have already been realised, while many others have become meaningless. The new statistical system should therefore be based on the principles of a market economy. Nevertheless the specific conditions of the transition period should be taken into account in adopting the corresponding methods. This does not imply temporary survival of the planned-economy spirit; rather it should reflect a consideration for the problems of transition, its crises and tension.

9. Reconciliation between the traditional eastern European social approach to economic activity and its ILO-OECD economics-based counterpart is unnatural because:

- The economic category of "dependent" cannot be interpreted in a capitalist world because it would imply that people not receiving state support either in the form of employment or some benefit should be kept by other persons;
- The term "inactive earner" refers to a positive, honoured category, while "unemployment benefit" refers to conditions sharply different from those connected with pensions, child-care fees or child-care allowances;
- The concept of "active earner" reduces to "employed", for example, those receiving no pension when pensions are no longer state subsidies but instead some type of insurance benefit.

In conclusion, "reformed" versions of obsolete concepts may be justified only if the time series of previous periods can be adjusted to the new philosophy. The new statistical system should be based on ILO-OECD recommendations and should represent a radical deviation from traditional practice.

10. Measuring economic activity by ILO-OECD concepts of employment and unemployment can best be realised by developing a Labour Force Survey. Arguments for this usually stress the importance of reliable information on unemployment. Owing to radical structural and organisational changes in the

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economies of countries in transition, the traditional data collection system on employment -- which relied heavily on big socialist enterprises -- faces enormous difficulties and cannot provide reliable information on actual employment in the short run. Household surveys are therefore becoming indispensable tools in measuring employment.

11. Labour Force Surveys have only two major disadvantages: relatively poor small-area representation and high costs. These are linked because improving small-area representation increases costs. Fortunately, methods based on auxiliary sources of information, e.g., such as registers, are suitable for improving small-area statistics. Experiments must be carried out to decide if Hungarian register data may be used for this purpose. The high costs of labour force surveys could be reduced, however, if various household surveys were combined; in the Hungarian practice this solution would seem appropriate.

12. At a time when attention is focused on living standards, traditional concepts of economic activity in this area will be replaced by a more prosaic system based on the economic approach. This will obviously become controversial; however, the analysis of negative side-effects of the transition towards a market economy may not be the responsibility of a single survey and its corresponding conceptual framework. It is imperative to combine the radical changes in collecting employment statistics with the reform in collecting statistics on living standards. In Hungary this will be facilitated by the Unified System of Household Surveys; the common sample basis allows for consistency between the results of various USHS surveys and those of the Labour Force Survey.

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