

Comparative study of labour market development in post-socialist Hungary and Azerbaijan since 1990

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This study compares the labour market developments in Hungary and Azerbaijan since the early period of their transition away from socialism. It analyses aggregate and segregated labour market indicators, social security systems, and industrial relations in these two countries. In Hungary, FDI-led (foreign direct investment) development created enviable, high-paying jobs for skilled workers in competitive sectors, but labour markets became dismal for unskilled workers. Recently, the Hungarian government retrenched social assistance to a primarily unskilled population that cannot integrate with labour markets. In Azerbaijan, resource-based growth could not increase attractive, well-paying jobs in the advanced sectors. Azerbaijan's prevailing economy, which is not very knowledge-intensive, does not discriminate against unskilled workers. It provides employment for them but mainly in low-paying sectors. A persistently high rate of informal employment denies a significant proportion of workers social protection.

Keywords:

Azerbaijan,
Hungary,
labour markets,
social security

Introduction

The transition from socialism to a market economy significantly affected the well-being of workers in Hungary and Azerbaijan. Under the new system, the socialist era's guaranteed employment ceased. Privatisation, which shut down and restructured over-employed state-owned enterprises (SOEs), made many workers vulnerable to income and job insecurity. Market forces, rather than planning committees, began to determine wages. This produced sizeable income inequalities.

After experiencing significant decreases in national output during early transition years, these countries' economies revived. Integration with the EU and global value chains (GVC) via an influx of foreign direct investment (FDI) has produced sizable economic growth in Hungary. In Azerbaijan, the booming oil sector has driven an unprecedented rate of economic growth. Measured in constant (2010) USD, Hungary's gross domestic product (GDP) per capita increased from 8,970 in 1995 to 17,579 USD in 2019; in Azerbaijan, the GDP per capita increased from 1,235 to

5,895 USD during the same period [1–8]. In the context of the systematic changes that affected socio-economic structures in Hungary and Azerbaijan, the evaluation of labourers' well-being is one of the most important aspects to consider from a socio-economic point of view. To that end, this study seeks to answer the following interrelated questions: First, how have new systems affected workers' well-being in Hungary and Azerbaijan? Second, how has the economic growth of the post-socialist period benefitted Hungarian and Azerbaijani workers?

Using the labour market fragmentation theory as my framework, I conducted a comparative analysis of workers' well-being in Hungary and Azerbaijan. I evaluated labourers' welfare by analysing these countries' labour market indicators and labour market institutions. Throughout this paper, I use workers' welfare according to the aforementioned labour market parameters. Labour market indicators included employment, employment structure, skill distribution, regional distribution of employment and wages, vulnerable and informal employment, and temporary employment rate. I analysed Hungary and Azerbaijan from the early stages of their transition away from socialism, until 2019. Industrial relations and social protection systems were the main parameters of this analysis's institutional context.

Hungary and Azerbaijan are small, similar-sized economies, and they share a decades-long socialist past. Both countries achieved considerable economic growth during the post-socialist period. Nevertheless, they pursued different paths to achieve this growth. As a Central Eastern European (CEE) country, Hungary pursued the diversification and integration of its domestic economy into the world economy through transnational corporations. In contrast, like other resource-rich members of the Commonwealth of Independent States (CIS), Azerbaijan built a strongly state-controlled, undiversified resource economy (Szanyi 2012). This study shows that FDI-driven economic growth in Hungary contributed to the creation of high-paying jobs for skilled workers in advanced sectors. However, unskilled workers were disadvantaged due to a lack of employment opportunities and social support after retrenchment. Meanwhile, resource-driven economic growth did not impair unskilled workers in Azerbaijan, but neither did it create well-paying jobs in the progressive sectors. This study compares the effects of these distinctive growth strategies on workers' welfare in a post-socialist context. In doing so, it enriches the existing labour market analyses of CEE-CIS duality.

Literature review

The fragmented labour market theory proposes that there are primary (good) labour markets with better working conditions, satisfactory pay, and stable employment. There are also secondary (bad) labour markets without these advantages. Jobs in the primary market are rationed; therefore, they cannot employ all workers. Gary Fields conceptualised the labour market segmentation theory for developing countries. He linked a country's level of economic development to the severity of labour market

fragmentation. At a lower level of economic development, it is exceptional to find regularly scheduled wage jobs with social protection. The open unemployment rate is lower than in developed countries, but the quality of jobs in the secondary sector is poor. For most people in developing countries, the lack of a social protection system makes it unaffordable to remain unemployed for a long time to seek a desirable job. Consequently, people who cannot find formal employment accept work in the free-entry informal sector (Fields 2009).

During the movement away from socialism, the adverse effects of the transition shock on labour markets were inevitable. Distinct market reforms and social policies caused CEE and CIS labour markets to adjust to the transition differently. CEE countries introduced more complete market reforms and earlier than their CIS counterparts. Market reforms and enterprise restructuring via privatisation led to massive layoffs during the initial stage of the transition (Boeri 2000). In CEE countries, decent jobs were created at an inadequate speed, leading to open unemployment and a decreased labour force participation rate. However, an adequate social protection system allowed people to cope with job loss more effectively (Rashid et al. 2005). In contrast, no viable social protection system existed to assist people during the transition in CIS countries. Therefore, people found themselves working jobs in subsistence agriculture, self-employment, and the informal sector. Employment in the agricultural and low-paying personal-service sectors expanded. In the CEE region, employment in heavy industry and the agricultural sector declined, whereas prospective employment in the business service sector increased (Bah–Brada 2014). Compared to CIS countries, CEE countries experienced a less severe transition shock. These differences impacted labour incomes in both regions. Eliminating inefficient jobs, and thereby pre-empting labour surpluses, eased the adverse effect of the transition shock on real wages for the CEE labour market. In contrast, in CIS countries, the labour market adjusted to a decline in output via a larger and longer decline in real wages, not a rise in unemployment (Lehman–Muravyev 2011).

In CEE countries, economic recovery followed the transition shock in the mid-1990s. In these countries, *EU integration* and FDI inflow spurred economic growth, increased the demand for labour, and contributed to an increase in real wages. Nevertheless, the *global financial crisis* struck these export-dependent countries, causing unemployment and wage stagnation. After the CEE countries recovered from this crisis, employment prospects revived. In congruence with the general tendency across Europe, the crisis produced lasting effects in the form of decreased employment protection and a higher number of fixed-term contracts (Lissowska 2017). After the global financial crisis, retrenching welfare support to labour market outsiders and cutting labour costs via decreases in income, and payroll tax rates increased the CEE countries' labour force participation rates to the level of the OECD average (Kovacs et al. 2017).

The CIS region experienced an economic revival during the late 1990s, after the economic collapse of the early transition period. The global commodity boom of 2000–2014 benefited resource-rich CIS countries by producing high economic growth rates. It also benefited workers by increasing job opportunities and real wages in resource-exporting CIS countries. However, informal employment persisted. The end of the commodity boom impacted these countries' economies and labour markets. A sharp downturn in commodity prices caused devaluation and inflation, which reduced real wages (Dabrowski 2016). Economic contraction reduced employment opportunities in undiversified economies, and informal employment remained an important alleviator of unemployment.

FDI-led economic growth improved job prospects and earnings for skilled workers in CEE countries, but employment opportunities for low-skilled workers remained limited (Rutkowski 2007). In these countries, patterns of long-term unemployment persisted among low-skilled workers. However, in CIS countries, labour markets did not marginalise low-skilled workers. Wage inequality – a natural phenomenon of the market economy – increased in both regions; it favoured skilled labourers, and was higher in CIS countries than in CEE countries (Pilc 2015).

There has been a significant increase in fixed-term temporary labour contracts in post-socialist countries. The gradual liberalisation of permanent contracts has been accompanied by the increased regulation of temporary contracts (Pilc 2015).

Job creation was concentrated in urban agglomerations, while rural and one-company towns lacked job creation. Tagai et al. (2018) claim that lack of the employment opportunities is one of the main factors for socioeconomic peripheralisation of rural areas in Czech Republic and Hungary. Fidrmuc (2004) investigated the ability of regional labour mobility to alleviate the adverse effects of asymmetric transition shock on depressed regions in four CEE countries. He concluded that a higher fixed cost of migration for low-wage earners and, second, workers' inadequacy of human capital in depressed regions are the primary factors that enable lower labour mobility to alleviate labour market problems in peripheral areas.

In the context of democratic transition, workers' consent was necessary for reforms to continue in the Visegrád countries. Therefore, trade unions were not excluded from industrial relations, but collective bargaining rather than tripartism dominated at the company level. Although trade unions have been legally entitled participants in industrial relations, states remain decisive actors, and they can sideline trade unions in critical times (Farkas 2011, 2016, Kahancova 2015).

There are no comprehensive studies on industrial relations in the CIS region. Due to their common past, the social and economic structures of most CIS countries are similar. In the absence of alternatives, only existing research on trade unions in Russia can be a justifiable proxy for CIS countries. In Russia, an autocratic regime accumulated power and officially side-lined trade unions. Trade unions

lacked the experience and power to mobilise labour in Russia. Consequently, they chose to remain under the government's umbrella to retain the rights and assets they inherited from the socialist period. As in the Soviet era, trade unions were incorporated into management and assigned to sustain social peace in the workplace. In this regard, trade unions could not protect workers from the reality of massive layoffs, falling wages, and worsening working conditions, all of which emerged from the transition to a market economy. The trade unions' inability or unwillingness to protect workers' interests caused a fall in their reputations (Prinkle–Clarke 2010).

The democratic transition in Visegrád countries and Slovenia required governments to assist people who suffered due to market reforms. These countries' stable parliamentary systems opened the opportunity for policymaking to incorporate and represent the wider interests of society. They preserved inherited universal welfare provisions, such as pensions and family assistance; they also introduced new programs such as unemployment benefits and means-tested social assistance (Barr 2005, Inglot 2008). Social provisions were generous during the initial years of transition. Since the cost of welfare spending threatened macroeconomic stability in Visegrád countries, they had to reduce the generosity of welfare provisions (Myant–Drahakoupil 2015). After the 2008 crisis, the universalist feature of CEE welfare states was abandoned. Emphasis shifted toward middle-class labour market insiders by neglecting the least fortunate outsiders (Kovacs et al. 2017).

In CIS countries, autocratic or semi-autocratic governments with extensive presidential powers channelled limited resources to powerful business elites and side-lined welfare demands from politically weak segments of society. Additionally, CIS countries lacked the state capacity to collect taxes and to form a viable apparatus capable of conducting welfare policies. In the reality of low wages, tax evasion was a norm. Extremely low wages in the public sector corrupted the provision of welfare services. Pensions remained one of the CIS countries' primary social safety nets (Cook 2007, Myant–Drahakoupil 2015).

Labour markets in the post-socialist period

The collapse of the Eastern Bloc had a significant effect on both Azerbaijan and Hungary. Svejnar (2002) warned that GDP data for the late 1980s and early transition periods suffer from deficiencies. This makes it harder to fully grasp the evolution of national output in post-socialist countries during this period. The 'gross material product', an alternative to GDP in socialist countries, did not include service production. Moreover, distorted prices in these countries did not fully reflect market evaluations. National statistical offices were not yet capable of recording production levels among the small businesses that mushroomed during this time.

Finally, rampant inflation made it harder to capture the real picture of national output during the initial years of the transition. Ultimately, the GDP data for this period must be interpreted with caution.

Table 1

Main labour market indicators

Indicators	1990	1995	2000	2005	2010	2015	2019
GDP per capita, constant 2010 USD							
Hungary	9,212	8,970	10,480	13,152	13,191	14,850	17,579
Azerbaijan	3,167	1,235	1,659	2,948	5,843	5,813	5,895
Employment to population ratio, %							
Hungary	55.4	44.4	45.7	46.5	44.8	51.0	54.5
Azerbaijan	60.1 ^{a)}	59.3	55.7	58.2	60.1	62.2	62.8
Labour resources, thousands							
Hungary	6,889	6,984	6,961	6,935	6,866	6,637	6,481
Azerbaijan	n/a	4,128	4,530	5,304	5,875	6,198	6,408
Labour underutilization, %							
Hungary	n/a	n/a	n/a	11.4	17.0	11.6	6.4
Azerbaijan	n/a	n/a	n/a	19	22.6	25.1	25.3
Time-related underemployment, %							
Hungary	n/a	n/a	n/a	7.3	12.8	8.6	4.2
Azerbaijan	n/a	n/a	n/a	16.4	19.8	22.5	22.9
Vulnerable employment, %							
Hungary	17.9 ^{a)}	15.8	10.2	7.8	6.9	5.8	6.0
Azerbaijan	56.0 ^{a)}	55.6	55.9	55.9	56.0	55.5	55.2
Contributing family workers, %							
Hungary	1.2 ^{a)}	1.0	0.7	0.44	0.3	0.27	0.2
Azerbaijan	37.8 ^{a)}	37.0	36.7	35.9	35.0	33.8	33.9
Self-employment, %							
Hungary	20.5 ^{a)}	20.0	15.2	13.7	12.3	10.8	10.3
Azerbaijan	68.7 ^{a)}	68.8	68.7	68.0	68.0	67.8	68.0
Share of fixed-term employment, % of total hired employment							
Hungary	n/a	n/a	7.1	7	9.8	11.4	6.6
Azerbaijan	n/a	n/a	44.6 ^{b)}	32.7 ^{c)}	n.a	n.a	n.a

a) 1991. b) 2003. c) 2006.

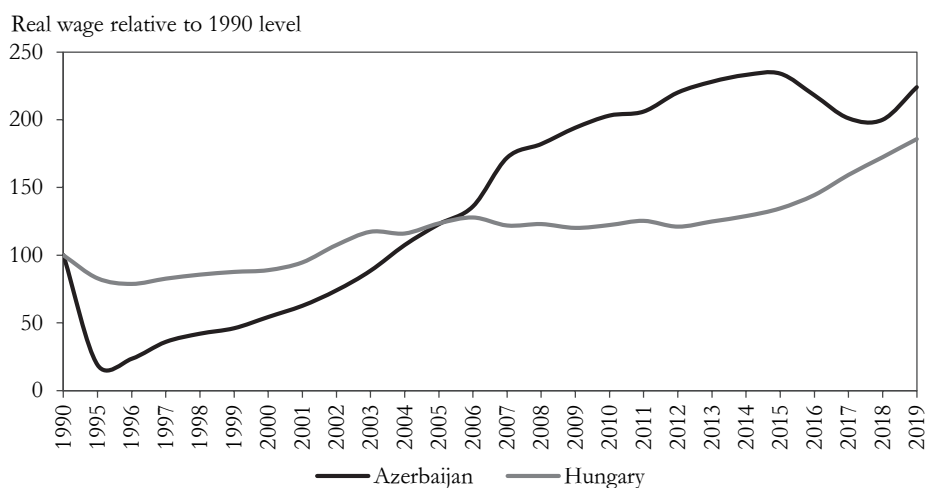
Source: [1–8], [9–12], [13–14], [15–18] and [19].

Hungary always prioritised economic catch-up with its successful capitalist neighbours. It initiated economic reforms during the heyday of socialism and began to build the institutional background of the market economy during the 1980s. Therefore, Hungary did not find itself in an institutional void during the transition period. Additionally, the Hungarian economy was less dependent on the Eastern Bloc than Azerbaijan. All of these factors contributed to a milder fall in the national output during the transition period, within which Hungary pursued the goal of

improving economic efficiency. As an inevitable result of efficiency enhancement, the country addressed massive redundancy in overstuffed SOEs via privatisation. The employment rate fell significantly in the initial years of transition and levelled off for a longer time (Table 1). The effect of the transition shock on real wages was milder in Hungary. Early retirement, disability retirement, and other social protection programs eased massive layoffs during the early transition period (Vanhuysse 2006). In tandem with FDI-driven productivity growth, these programs allowed the government to protect the wages of workers who remained in the labour market (Sgard 2001). Following the transition shock, the Hungarian economy recovered, and FDI inflows contributed to economic growth. Continuous economic growth increased real wages from the mid-1990s, but the job creation effect was negligible. The global financial crisis caused export shrinkages and trouble in the Hungarian financial sector, both of which produced a slowdown in economic activity. Economic recession also increased unemployment, whereas International Monetary Fund (IMF-) imposed austerity measures forced the Hungarian government to reduce and freeze public sector wages. Together with persistent unemployment, wage cuts in the public sector caused wage stagnation and even a fall in real wages. In addition to this fall, involuntary cuts in working hours reduced workers' incomes. However, economic recovery and an accompanying increase in demand for labour contributed to improvements in employment and real wages during the post-crisis period.

Figure 1

Change in the real wages in Hungary and Azerbaijan



Source: [13–14], [15–18].

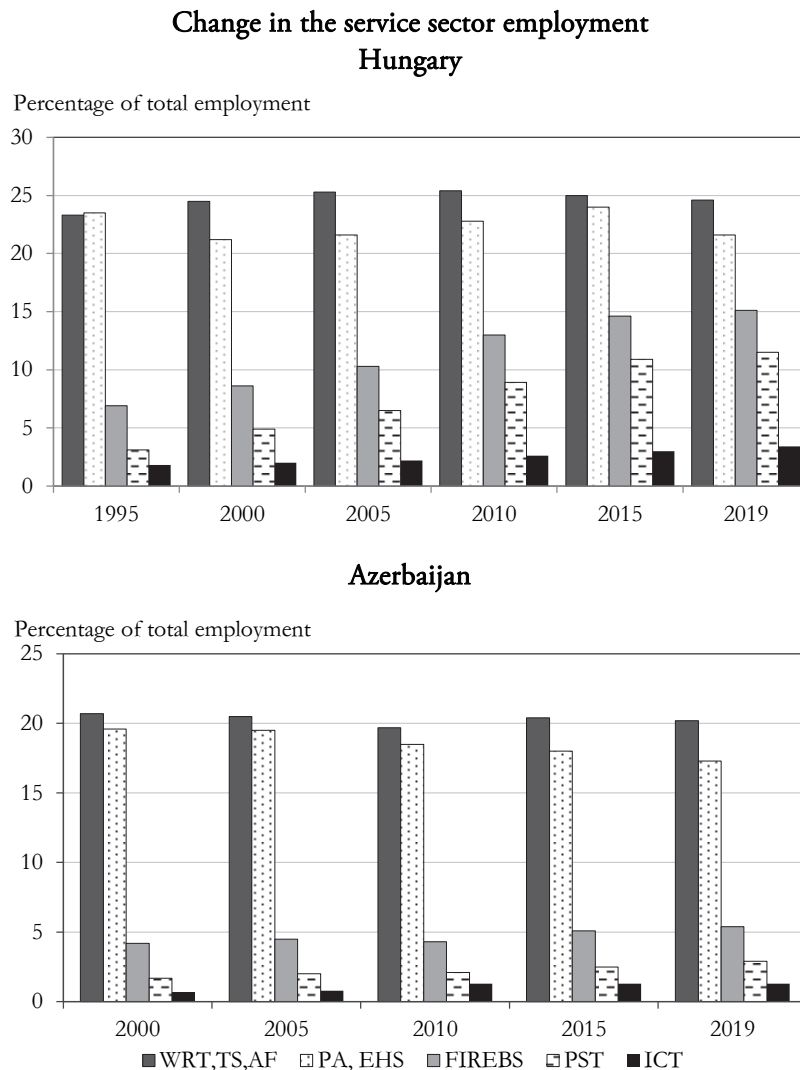
Like other narrowly specialised Soviet republic economies, Azerbaijan depended on the Union of Soviet Socialist Republics (USSR) for production inputs and product markets. The breakage of economic and financial links with the former

communist bloc and political instability and defeat in a war caused a dramatic fall in Azerbaijan's national output. During the early years of the transition, political instability and war inhibited reforms. Therefore, employment did not fall significantly, but economic downfall resulted in reduced working hours, wage arrears, unpaid vacations, and a dramatic fall in real wages (Figure 1). After political stability was achieved in 1995, macroeconomic stabilisation policies and structural reforms supported by the IMF and the World Bank caused job destruction via privatisation and the reduction of state subsidies to SOEs. However, incoming oil revenue has raised employment levels since the mid-2000s. It also increased real wages, which had already begun to recover in the late 1990s. However, relatively boon labour market performance reversed in mid-2010 in Azerbaijan. A sharp decline in oil prices caused a currency crisis in 2015, significantly worsened labourers' well-being. The decline in oil revenue damaged the performance of the country's oil-dependent economy. Simultaneously, devaluation significantly increased inflation, which caused a decline in real wages. Employment suffered less due to the prevalence of the informal sector. As oil prices rose, the Azerbaijani government doubled the minimum wage in 2019 to appease the public after harsh years of the currency crisis. The increase in the minimum wage improved the well-being of low-wage workers.

Agricultural employment in Hungary fell as a result of privatisation and the elimination of subsidies. However, in Azerbaijan, a high employment rate in agriculture persists despite the sector's falling share in the national economy. Agricultural workers' income is less than half of the national average in Azerbaijan, while it is more favourable in Hungary (Table 2). Agriculture remains the last resort for employment in Azerbaijan. During the socialist era, both countries favoured industry, and over-employment was prevalent in this sector. In Hungary, economic restructuring during the transition period resulted in a decrease in industrial employment. Job destruction primarily impacted heavy industries. In contrast, integration with the global economy via FDIs saved employment in the manufacturing industry. In Azerbaijan, the collapse of supply chains and trade links with former Soviet countries and the inability of the Azerbaijani government to save the industry caused a decrease in industrial production and employment (Table 2). Niftiyev (2020) concludes that the oil boom caused de-industrialisation and shrinkage of industrial employment in Azerbaijan. Employment in service and the service sector's share in the total employment increased in both countries during the post-socialist period. Nevertheless, employment in the service sector has grown more rapidly in Hungary. The share of secure, well-paid jobs such as Finance, insurance, real estate, and business services (FIREBS) and Information and communications technologies (ICT) in the service sector, which is dominated by FDIs, increased notably in Hungary (Figure 2). However, these jobs' growth rates were negligible in Azerbaijan. Here, oil-sourced economic growth and fiscal

expansion fuelled less promising forms of employment in construction, trade, and personal services.

Figure 2



Notes: WRT – Wholesale, retail trade; PA – Public administration; EHS – Education, healthcare, and social work activities; FIREBS – Finance, insurance, real estate, and business services; PST – Professional, scientific, technical activities; ICT – Information and communications technologies.

Source: [20].

Hungary could provide social assistance to those who suffered from this transition. Government-provided social assistance saved a significant proportion of people who lost their jobs from seeking employment for meagre payments in low-

profile subsistence jobs (Tokez 1996). In contrast to what happened in Hungary, the Azerbaijan government proved unable to provide social assistance to people who suffered during the transition. A lack of social assistance compelled most people who lost their jobs to seek insecure, low-profile employment in the informal sector for a subsistence-level income (Brown 1999). In Azerbaijan, a higher share of low-profile employment persisted, even during the economic growth period that followed the transition shock. The vulnerable employment rate remained higher than 55% in Azerbaijan, whereas it fell from 17.9% to 6% in Hungary (Table 1). The available data on labour utilisation reveals that the opportunity for Azerbaijani workers to work in the industries they prefer is significantly smaller than the opportunity of their Hungarian counterparts to do the same. Resource-based growth in Azerbaijan brought economic expansion based on existing economic activities. Nevertheless, it did not attempt to build new, higher value-added activities. Consequently, it did not create new, high-paying job prospects. Therefore, Azerbaijan could only create more vulnerable jobs that already existed. Demographic increases have increased the labour force by 55% in the past three decades, exacerbating the situation.

There is no consistent series of data on informal employment in Hungary and Azerbaijan. In Hungary, employment without a work contract represented less than 5% of total non-farm employment in 2002; in 2007, it represented 3% of the same (OECD 2008). In Azerbaijan, the estimation of informal employment was 26% of non-agricultural employment in 2009 and 20%–30% in 2016 (ILO 2018). In tandem with subsistence agriculture, the high ratio of low-prospect, informal employment deprives a significant part of Azerbaijani workers of jobs and social protection.

Compared to the OECD average, Hungary's lower rate of temporary employment is favourable. The limited data available for Azerbaijan show that non-permanent employment stood at one-third of the total hired employment in 2006 (Table 1). Such a high share of temporary employment endangers the job security of a significant proportion of workers who may suffer from macroeconomic shocks.

Table 2

Labour market structure of Hungary and Azerbaijan

Indicators	1991	1995	2000	2005	2010	2015	2019
Employment in industry, % of total employment							
Hungary	n/a	28	26.9	24.3	23.4	24.1	24.3
Azerbaijan	14 ^{a)}	n/a	7.1	7.2	7.0	6.8	7.3
Employment in agriculture, % of total employment							
Hungary	11.8	8.0	6.5	4.9	4.5	4.9	4.7
Azerbaijan	43.1	44.2	41.0	39.0	38.2	36.4	35.9
Employment in service, % of total employment							
Hungary	52.3	59.4	59.8	62.8	64.7	64.8	62.6
Azerbaijan	44.3	44.9	48.1	48.6	48.0	49.6	49.3
Ratio of average wage in agriculture to national average wage, %							
Hungary	n/a	n/a	n/a	66.3	69.8	75.7	78.6
Azerbaijan	n/a	53.6	29.0	33.1	48.3	52.6	58.4
Ratio of least earned region to most earned region							
Hungary	n/a	n/a	0.59	0.62	0.60	0.59	0.57
Azerbaijan	n/a	n/a	n/a	0.33	0.41	0.38	0.41

a) Approximation on data for 1985.

Source: [1–8], [9–12], [13–14], [15–18].

In the post-socialist period, labour markets in Hungary have been unfavourable to unskilled workers. During the early years of the transition, market reforms and economic restructuring caused significant job destruction among manual occupations. After the transition shock, job creation and FDI-led growth benefitted workers with marketable skills, but these phenomena were biased against unskilled workers. Therefore, a significant number of unskilled workers left Hungary's labour market (Vanhuysse 2006). Alpek et al. (2018) conclude that uneducated workers in disadvantaged regions of Hungary stay unemployed longer time. The undersized SME sector's inability to provide employment for unskilled workers is the main reason for Hungary's higher rate of labour inactivity among low-skilled workers (Janos 2013). Cserhati–Pirisi (2020) claim that the expansion of tertiary education and the congruence of education to service-oriented labour market demands will be necessary for Hungary to cope with the forthcoming digitalisation. Based on limited data, it is reasonable to assume that employment opportunities for low-skilled workers in Azerbaijan are better than those in Hungary (Table 3). Subsistence agriculture and the informal urban economy absorbed Azerbaijan's low-skilled labour force. Unskilled workers usually remain on the lowest scales of labour earnings; therefore, studying the ratio of minimum wage to average wage can produce a reliable approximation with which to evaluate low-skilled workers' income. In Hungary, this ratio steadily increased from a low initial position during

the first decade of the transition. In Azerbaijan, minimum wages were meagre until the mid-2000s, but recently, oil revenues enabled it to converge with the Hungarian level.

Hungary's integration into the global economy, which occurred via the development of the FDI-dominated manufacturing industry, marginalised regions that specialised in agriculture and mining during the socialist era. After the transition, the government ceased to subsidise and protect these sectors, and foreign companies did not invest in those regions; therefore, they suffered socio-economically (Liebert 2013). Ritter (2008) concluded that agricultural unemployment persists in the laggard regions of Hungary and that the workers' inadequate skills impede their ability to improve their living conditions by migrating to prosperous urban centres. In Azerbaijan, the government's decision to cease support for agriculture also deteriorated the living conditions in rural regions. Under-employment in agriculture, along with massive migration to urban areas, disguises existing unemployment problems in rural areas (Table 2). Azerbaijan's oil-fuelled boom in urban services and construction requires simpler skills than Hungary's export-oriented manufacturing and services. Therefore, rural-urban migration is considerably higher than in Hungary, and a greater earnings gap between rural and urban workers persists in Azerbaijan.

Table 3

Skill differences in labour markets of Hungary and Azerbaijan

Year	Unemployment rate				Minimum wages/ average wages	
	Hungary		Azerbaijan		Hungary	Azerbaijan
	basic	intermediate	basic	intermediate		
1995	n/a	n/a	n/a	n/a	0.250	0.091
1998	15.6	8.0	n/a	n/a	0.230	0.032
2000	11.5	6.0	n/a	n/a	0.243	0.025
2005	14.3	6.0	n/a	n/a	0.302	0.243
2009	23.2	9.3	8.1	5.3	0.320	0.251
2010	25.1	10.0	9.1	5.4	0.363	0.256
2011	25.0	10.2	11.2	4.9	0.366	0.256
2012	24.8	10.1	9.5	4.8	0.417	0.234
2015	17.3	6.0	n/a	n/a	0.424	0.225
2019	9.7	2.5	n/a	n/a	0.438	0.394

Source: [9–12], [13–14], [15–18].

The state of industrial relations

Trade pluralism was allowed during the last year of socialism. In Hungary, this resulted in the dismantling of the socialist-era monopolist trade unions confederation. Even so, the rivalry over inherited assets, the decentralised structure of trade unions, and the dramatic decline in trade union membership made it extremely challenging to organise labour. Therefore, trade unions could not become powerful actors in national-level employment relations during the post-socialist period. Instead, governments have continuously disregarded unions during national-level negotiations. Job destruction in the highly unionised heavy industry sector, the concentration of job creation in non-unionised small and medium enterprises, and the poor reputation of trade unions resulted in a decrease in union membership from 67.5% in 1992 to 9% in 2019 (ILO). The trade unions' primary strongholds are in the public sectors, such as transport, education, and healthcare. Despite the high rates of unionisation in these sectors, trade unions can only protect their members' interests selectively (Neumann–Toth 2018).

In post-Soviet Azerbaijan, political centralisation and the lack of a legacy of organised labour formulated the character of trade unionism. The last alternative trade union was suppressed in the oil industry in 1997. Since then, all trade unions have been monopolised under the Azerbaijan Trade Union Confederation (ATUC) umbrella, which is the successor of the socialist period's Council of Trade Unions (Mammadov 2007). The ATUC's chairman has remained in the same position for the last 28 years and has openly expressed the 1.5 million ATUC members' support for the ruling party in elections. This violates the Law on Trade Unions. In contrast to Hungary, union coverage is over 80% in Azerbaijan. Nevertheless, this percentage does not translate to a better organisation or better protection for labour interests (ILO). Generally, Azerbaijani employees are automatically registered for union membership when they begin formal employment. The reasons for this are: First, registration provides financial resources for trade unions. Second, it serves as a measure of control that pre-empts the emergence of alternative labour organisations. Trade unions side with employers and therefore function as part of management; there have even been some cases where they defended employers in labour disputes [21].

Development of the welfare system

During the final decades of the Austro-Hungarian monarchy, insurance from sickness and injuries was implemented for a small share of workers. Disability pensions, a social security system covering old age, and family allowances were only introduced during the interwar period. However, social insurance was limited to public employees and industrial workers. A significant proportion of citizens were ineligible for the social security system because of their employment in agriculture

(Szikra–Tomka 2009). During the first decade of the post-war era, the Stalinist regime prioritised rapid industrialisation at the cost of social security and workers' well-being. Overlooking the production of consumer goods, the welfare of workers, and the protection of social security caused a rebellion in 1956. This rebellion endangered the legitimacy of the socialist regime in Hungary. Inglot (2008) referred to the expansion of social spending in Hungary as an 'emergency welfare state' that responded to a political crisis. Initially, the Kadar government attempted to satisfy society's demands for consumer goods and higher wages for workers. In the late 1960s, the Kadar regime initiated a generous welfare policy, and Hungary achieved a universal social security system that covered major social risks.

In response to the socio-economic transition crisis, the first post-socialist Hungarian government preserved inherited universal welfare, facilitated early retirement and disability retirement, and introduced generous unemployment benefits and income compensation to protect redundant workers. The cost of social spending challenged Hungary's fiscal sustainability. Therefore, the country's socialist-liberal government reduced social spending in 1995 (Inglot 2008). One distinctive feature of the welfare policy during that period was the government's support for working-age people who could not integrate into the labour market. Initially, it was supposed that such unemployment was a temporary side effect of transition, and that forthcoming economic growth would solve it. Nevertheless, long-term unemployment among low-skilled workers and residents of economically backward regions persisted (Ferge–Tausz 2002).

The persistence of chronic budget deficits necessitated permanent adjustments to the state budget to meet EU membership obligations and sustain Hungary's macroeconomic stability. The global financial crisis was a politically feasible time to conduct fiscal reform. The Hungarian economy's dependence on FDI limited its power to increase taxes on business. Fierce competition for foreign capital existed, and tax increases can prevent the inflow of FDIs by encouraging foreign investors to look elsewhere for a country with lower taxes. Higher taxes on workers can also increase businesses' labour costs, which foreign investors do not welcome. Simultaneously, taxation can impede employment growth, which is a priority in Hungary. Therefore, the Hungarian government chose to adjust its budget by cutting government spending. For a long time, society perceived government support for labour market outsiders as an unfair over-subsidisation of the 'idle poor'; therefore, it was not hard for the government to target that spending (Vidra 2018). The Fidesz government suspended financial support for welfare dependents and linked support for public work instead. Supported public employment is capable to ease the unemployment problem for unskilled regions of Hungary (Kóti 2018). The government aimed to solve a decades-long inactivity problem and build a 'workfare society'. Curtailing welfare was not a typical, temporary austerity measure that responded to an economic crisis. Instead, it was a shift in social policy

designed to increase employment. The welfare system turned from a universalist state into one that favoured labour market insiders.

The EU has not directly influenced social policy or the welfare system in post-socialist Hungary. Its main concern is overall fiscal discipline and is unwilling to establish an expensive ‘European social model’ in relatively under-developed new members, including Hungary (Ferge–Juhász 2004). As with other recent members, the primary targets of EU social policy in Hungary are health and safety at work, working conditions, equal opportunity, and the social inclusion of minorities. EU accession contributed to a considerable improvement in these areas (Falkner 2010).

Table 4

Social spending in Hungary and Azerbaijan

Indicators	1991	1995	2000	2005	2010	2015	2019
Social spending % of GDP							
Hungary	30.7	24.7	20.9	21.86	23.0	20.44	18.1
Azerbaijan	n/a	3.4	6.0	6.42	5.6	7.1	7.0
Pension spending, % of GDP							
Hungary	10.5	8.7	9.2	10.2	11.2	10.2	8.3
Azerbaijan	n/a	2.5	n/a	2.1	3.9	5.3	4.6
Average pension/average wage							
Hungary	75.0	73.0	59.0	61.0	65.2	66.9	51.8
Azerbaijan	n/a	16.3	29.5	23.3	36.2	44.3	49.0

Source: Own calculation on the basis of data from [13–14] and [15–18].

There were no noticeable achievements in the social security system in Azerbaijan before the advent of socialism; instead, social security emerged and developed during the socialist era. The idea of equality among Soviet citizens produced similar social protection systems among the USSR’s member republics. Therefore, materials about the evolution of the welfare system in the USSR are sufficient to study the welfare system’s evolution in Azerbaijan in the reality of scarcity of distinct studies of Azerbaijan. In the late 1920s and the 1930s, old age and disability pensions were introduced and inherited laws on sickness and injuries were improved. Nevertheless, the Stalinist period prioritised rapid industrialisation and repair of the damage caused by World War II. These activities drained the resources available for social security. For these reasons, the welfare system during the Stalinist period proved inadequate to meet the needs of society. In the urbanised sectors of USSR society, resentment about the negligence of social protection necessitated reforms in welfare policy (Adam 1991). Consequently, the 1956 and 1964 Pensions Laws significantly increased pensions and introduced a universal pension system. In parallel, the post-Stalinist period witnessed and improvement in wages, family allowances, and universal access to healthcare and education.

Nevertheless, the generosity of the social security system in Soviet Azerbaijan remained significantly behind that of socialist Hungary.

The economic catastrophe of the early transition period impoverished most people in Azerbaijan. Transition shock and military spending exhausted the resources available for social protection during those harsh years. The social security system of the Soviet period was mostly preserved, but the disproportional indexation of benefits made it ineffective.

Social spending improved from 2000 onwards (Table 4). Oil-fuelled economic growth was the source of increased social spending. Azerbaijan's government began to build a market-oriented social security system. Social insurance and social assistance were separated in 2006, but social assistance is not yet adequate to cover those who need government support. When a currency crisis revealed that a budget-dependent social security system was unsustainable for oil-dependent Azerbaijan, the government deepened the insurance-based system and enacted the mandatory unemployment insurance law in 2017. The government initiated the formalisation of the informal economy to broaden the coverage of social insurance and increase resources for the social insurance fund. Nonetheless, achievements in formalising informal employment are not yet satisfactory, and a global pandemic necessitated the postponement of further formalisation measures. A significant part of low-paid employment depends on its informality. Therefore, formalising this employment without implementing an appropriate economic development policy can result in job losses.

During the democratic transition in Hungary, the generous pension system of Kadarism was preserved and the level of pensions remained generous for a long time. Even so, the crippling indexation of pensions to wages has worsened pension levels over the past five years (Table 4). The pensions of retirees, most of whose labour occurred in the post-socialist period, are higher than those of pensioners who retired during the early post-socialist era. In this period, a higher rate of wage growth than pension indexation has been the main reason for pension inequality. In Azerbaijan, unlike Hungary, a generous pension system was not implemented during the socialist period. Inadequate indexation during the hyperinflation of the early 1990s made pensions extremely low relative to average wages. Since the early 2000s, economic recovery has enabled the government to increase pensions. Nevertheless, the persistently high rate of informal employment continues to engender acute inequality among pensioners. In Azerbaijan's contribution-based pension system, workers in the informal sector are doomed to be excluded from decent pensions due to insufficient pension capital or insurance experience. They receive a lower amount of old age compensation.

During the Kadarian period, childcare and a generous universal family allowance were introduced. These benefit schemes were preserved with similar generosity during the post-socialist period (Inglot 2008). However, the Fidesz government

penalised unemployed parents by the non-indexing of family allowance, and it favoured working parents by introducing a family tax allowance. Soviet Azerbaijan also introduced childcare benefits and an income-tested family allowance, but they were extremely ungenerous (George 1978). Childcare benefits survived in the post-socialist period, but their survival was linked to employment, meaning that workers in informal employment are excluded. A symbolic amount of income-tested family allowance was provided during the destitution of the early transition period but was abolished in 2006.

Conclusion

This study compared the well-being of workers in Hungary and Azerbaijan during the post-socialist period. The transition shock from socialism to a market economy caused massive job destruction. In response, Hungary preserved the universal welfare state inherited from the socialist era. It also introduced unemployment insurance and income support to alleviate social hardships among those who suffered during the transition. Contrastingly, Azerbaijan could not provide social protection, and most laid-off workers found themselves working in insecure, low-paying informal employment.

In Hungary, FDI-led development benefitted skilled workers, but unskilled workers in regions specialising in agriculture and mining suffered long-term unemployment. Under-developed SMEs were one of the main barriers to low-skilled workers' integration into the labour market. Resource-based development has not improved Azerbaijan's economy. The injection of oil revenues into the economy has provided employment and improved workers' incomes in secondary markets, but it has not successfully created enough primary jobs.

Chronic budget deficits threatened the sustainability of the universal welfare system in Hungary, which had to take measures to achieve fiscal balance in the late 2000s. FDI-led development limits tax increases; therefore, Hungary adjusted its budget by reducing social spending. The new welfare system lost its redistributive character and neglected labour market outsiders, mainly unskilled workers. It is necessary to find a solution to the problem of long-term unemployment among the country's unskilled workforce. In Azerbaijan, the government has planned to build an insurance-based social security system since the early 2000s, but the prevalence of informal employment excludes a significant proportion of the workforce from social protection. After its currency crisis, Azerbaijan has intended to broaden the coverage of social insurance by formalising informal employment. Nevertheless, pursuing such a policy without an accompanying economic development strategy would lead to job destruction.

In short, FDI-led development improved the value structure of the Hungarian economy and increased the number of well-paying primary jobs. Even so, it

marginalised unskilled workers, and recent reductions in government support for this disadvantaged group further worsened their well-being. In Azerbaijan, oil-based economic growth could not transform the economy's structure, and low-paying vulnerable employment persisted.

Further research could investigate perspectives on the Hungarian SME sector's ability to provide decent employment for low-skilled workers. It could also study how to upgrade the structure of the Azerbaijani economy and its impact on labour market outcome.

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