

# Limitation in the movement of fresh graduates: effects triggered by a binding compensation in the higher education – the case of Hungary

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## **Abstract**

The European Union's four freedoms mean the free flow of people, capital, goods and services. Hungary was joined the EU in 2004 so we have to fulfill obligations our EU membership raises. In 2012 the Hungarian government modified the higher education act and now this regulation could be questionable in the light of free movement of fresh graduates. In this paper we present the EU regulations (the optimal allocation of resources), the Hungarian Higher Education Act, the alternatives on the limitation imposed by the higher education act and the possible effects of the above mentioned act on other Member States.

## Towards the optimal allocation of resources: the four freedoms

Treaty establishing the European Economic Community (EEC) envisaged a single market consisting of the territory of the Member States (MSs). The core incentive of the single market was to liberalise the flow of resources and by this ensuring a harmonic, non fragmented development of the founding States' economies. The concept of free movement of the goods, workforce, services capital has remained untouched by the times, but their content has developed through the decades.

The founding treaty (Treaty of Rome, 1957) specified the creation of a common market and harmonisation of the Member States' economic policies „*to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it*” (EC 1957, Article 2). For this purpose, according to Article 3 of the Treaty, MSs should eliminate “*customs duties and of quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect*” (EC 1957, Article 3) in the relation of intra-Community trade, and, inter alia, they have accepted „*the abolition [...] of obstacles to freedom of movement for persons, services and capital*” (EC 1957, Article 3).

Due to the contemporary thinking, elimination of these restrictions should lead to the free movement of resources. In the case of this paper only the free movement of workforce is relevant and therefore we narrow our discussion onto this field. Development to the contemporary state of this freedom, however, was achieved step by step; gradual integration and liberalisation typical to the EEC/EU common policies and initiatives could be tracked in this case as well.

The freedom of movement for workers has been developed over the time. In this process the first step (after the signing of the Treaty of Rome) was embodied in the Council Regulation 1612/68 which has grounded the long time development of this freedom. Council Directive 68/360/EEC has abolished the restriction on changing home place of workers, and the freedom was extended to their family members. The fundament of the right to remain in a

MS after being employed there is the Commission Regulation 1251/70. Equal treatment of persons applies for the trade union membership as well (Eurofound 2011).

Table 1

Some of the measures relating to the free movement for persons, 1957-2013.

Name of the provision	Date	Contents
Treaty of Rome	1957	fundamentals of the free movement of workers
Council Reg. 1612/68	1968	freedom of movements
Council Directive 68/360	1969	abolition of restriction on movement
Commission Reg. 1251/70	1970	right to remain in a MS
Council Reg. 312/76 (amendment)	1976	trade union
Council Dir. 73/148/EEC, et.al.	1974	free movement of entrepreneurs
Treaty on the European Union (Treaty of Maastricht)	1990-1992	free movement of persons
2004 enlargement	2004-2011	case by case decision

Source: Eurofound 2011, Euvonal 2012, EUR-Lex 2012

From 1974, free movement of entrepreneurs is granted for the purpose of establishing condition for a harmonic economic activity through the Community. Treaty establishing the European Union (1992) has broadened the scope of the freedom to all of the EU citizens and by this the freedom has been consummated. There is no obstacle in front of the movement nor of students, neither retired persons if some conditions are met.<sup>1</sup> However, by the Central European enlargement EU-15 could ask for at most seven years derogation from the scope of free movement of workers; some of the old MSs opted for this, other not, but the decision was taken at national level.

In present, due to the Article 45 of the Treaty on the Functioning of the European Union, freedom of movement for workers „shall entail the abolition of any discrimination based on nationality between workers of the Member States as regards employment, remuneration and other conditions of work and employment” (EC 2007, Article 45). No restriction<sup>2</sup> is allowed „a) to accept offers of employment actually made; b) to move freely within the territory of Member States for this purpose; c) to stay in a Member state for the purpose of employment in accordance with the provisions governing the employment of nationals of that State laid down by law, regulation or administrative action; d) to remain in the territory of a Member State after having been employed in that state, subject to conditions which shall be embodied in regulations to be drawn up by the Commission” (EC 2007, Article 45). All of the above mentioned mean that the common market functions as an extended national labour market. Ensuring these conditions are vital for the proper functioning of the single market since without it fragmentation caused by the separated labour markets<sup>3</sup> would hinder optimal allocation of resources and harmonic growth.

<sup>1</sup> Only conditions to be met are those of having financial assets covering living costs and health insurance.

<sup>2</sup> Justification for limitation on the free movement of workers could be justified if these restrictions are being introduced to maintain „public policy, public security or public health” (EC 2007, Article 45) or public employment (EC 2007, Article 45).

<sup>3</sup> According to Article 47 (EC 2007), mobility of young workers is to be encouraged. The improper functioning of the common labour market is nowadays reflected in the never seen South European youth unemployment as well.

The concept of free movement for person was being supplemented by various policies. Harmonisation and mutual recognition of national regulations on the field of social security and health insurance or recognition of some of the professional qualifications show in this way (EC 2012). Thanks to these policies a worker can move in the single market under the same conditions as in the case of move on a purely national labour market.

### The Hungarian Higher Education Act

In 2012 the Hungarian government modified the state's Higher Education Act on several points but the most important and critical modification was the limitation of the movements of fresh graduates (Magyar Közlöny 2012).

“The law stipulates that those whose post-secondary education is funded by the state must spend at least twice as much time working in Hungary in the 20 years following graduation as spent in post-secondary studies. Those who decide to leave Hungary must repay the entire cost of their university or college education.<sup>4</sup>”

So, what does it mean? It means that if someone who has 12 semesters (6 years) funded by the state she or he has to work after his/her education 24 semesters (12 years) in Hungary.<sup>5</sup> It doesn't sound so bad but if we think it over again that's a big decision for students. If we want to achieve our goals abroad we won't be able for it because we have to stay and work at home country for 12 years and it's a long time. By special professions (doctors) you won't be able to earn much money that can ensure our way of life. And we suppose that act is against with principle of the European Union four freedoms.

### Alternatives on the limitation exposed by the Higher Education Act

Since the adoption of the Maastricht Treaty on the European Union we speak about the free movement of persons. This category is expanded in comparison to the previous measures; in the post-Maastricht era the scope of the free movement covers inactive citizens as well and this reveals new opportunities for these groups of people.

In the case of our paper group of students is in focus. Students, however, are not in all the cases inactive members of a society, since working besides studying is totally accepted. Therefore we expand the scope of subject of our examination; in fact, our discussion is about people who are moving abroad primarily with the incentive to educate themselves. However, in the most of cases if these activities occur in the same time, the conducting policy is probably studying.

The stalling off effect and the generated pushing effect could lead to potentially harmful consequences. A broad media has highlighted the possibility of losing talented young people by attending foreign universities. There a lot of pull features why to choose one of these institutions, from which the most important seems to be the free education, high quality of education, vicinity, in a lot of cases higher possibility to get an appropriate workplace and wage after finishing the studies, etc. However, living costs are in some cases higher abroad but the net profit of obtaining a foreign degree could spur young people, who could afford it, to start their higher education abroad. On the other hand, their return to Hungary is dubious.

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<sup>4</sup> <http://www.xpatloop.com/news/69461>

<sup>5</sup> <http://www.hir24.hu/belfold/2012/07/26/felveteli-ime-a-roghoz-kotes-szabalya/>

## The effects of the Hungarian act

Some years later there will be many serious problems which cause by the launch of the Hungarian Higher Education Act. The first trouble is the migration which applies yet nowadays too. With better requirements the neighbour countries can be more attractive than Hungary. These requirements are the push and pull factors (Crush-Frayne 2007).

The migration has a lot of aspects. First of all it's good because we live in an open Europe and we can take of advantage from it. But from the other side migration can be negative for the sender and recipient country. In the first paragraph I demonstrate the effects of the migration for the home country and in the second section the effects for the recipients.

To leave our home country can be a very hard decision but in our case it's necessary to have opportunity to get a good job. By the migration from home country it loses a lot of things because the process of brain drain begins (Wouterse 2011, Búr-Tarrósy 2011, Urbán 2011, Akokpari 2006). The clever, young people leave the country and they will live in other region so they increase another country's GDP, productivity and develop the host economies (Wouterse 2011). Migration can be permanent and it's very important because of the income which people spend in those regions where they earn it so the multiplier effects don't prevail in the home country (in Hungary) (Lengyel 2003).

On the other hand the act can cause lack of professions because in Hungary the costs of the medical or other education is very high but they will earn just a tenth or a twentieth of these costs. So if they have to stay in Hungary nobody will study expensive courses on your own costs. By staying in the country many people will be unemployment because the demand will be higher than the supply on the labour market and the wages will decrease. The graduated student won't live their own life in Hungary because they won't find jobs. The standards of the human capital will decrease countless clever people will study in foreign country and the lower educated people will stay home. Among the home country and recipients a dependence relationship will be formed due of the remittances (Biffl 2012, Martin 2012, Wouterse 2011, Urbán 2011, Akokpari 2006). Migration creates dual households where one part of the family live in one country and the other part live in another (Urbán 2011, Martin 2012).

In the aspect of the fiscal policy the migration reduces the tax revenues because this part of the population who earn more money is possibly moved away (Crush-Frayne 2007). Furthermore, migration of highly educated people drain the economic development opportunities in home country caused by the brain gain in recipients.

If students study in other countries they will probably live their life there. They will spend their money in the recipient country and the migration can be permanent (Biffl 2012). What can we do in this case? Nothing. The right for free moving prevails almost in all European countries in higher education law but Hungary is a special case. Migrants will raise another countries productivities, innovations, economic development (Wouterse 2011). These countries could give chance to Hungarian students.

But there are negative effects on recipients too. For example, migration raises the population in the recipient; labor's supply will be better and bigger so it leads to competition. Wages will decrease caused be the possible of the oversupply of labor (Búr-Tarrósy 2011, Akokpari 2006). Migrants have to be integrated in the new environment (Gagnon-Khoudour-Casteras 2012) and sometimes it's very hard because new emigrants are seemed like competitors for local job seekers.

## Conclusions

The new Hungarian Higher Education Act has introduced a rational principle, namely: highly educated people whose training's costs were paid from the Hungarian tax payers contribution, should contribute as well to the costs of their education by paying taxes later in Hungary. On the other hand, however, (properly paid) workplaces should be granted for young talents; otherwise, two choices remain for young professionals, namely migration or unemployment.

In our views limitation of freedom in movement raises the question of compatibility of the act with the relevant EU regulations. Furthermore, the net impact of limitation on the Hungarian economy is not clear; there are pro and contra arguments as well. However, it should be noted that this system may exclude poor people from the education, on one hand, and, on the other hand, stimulate migration of richer.

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