



AMCHAM HUNGARY POSITION BRIEF No. II

EDUCATION AS A PILLAR OF HUNGARIAN NATIONAL COMPETITIVENESS

JANUARY, 2004

The purpose of this Position Brief is not to provide a comprehensive strategy for educational reform in Hungary, but rather to offer three ideas, perceived by AmCham as being the most significant improvements to the educational system needed to facilitate Hungary's national competitiveness:

- (I) Institutions of higher education should have more independence with respect to managing finances;
- (II) Curriculum in institutions of higher, secondary and vocational level education should be more reflective of the needs of business; and
- (III) The learning of foreign languages, particularly English, needs to be substantially strengthened in Hungary.

...“education is ... perhaps the most important requirement to building national competitiveness.”...

Worldwide, education is increasingly recognized as one of the most important – perhaps the most important requirement to building national competitiveness. This is particularly true for a country such as Hungary, which no longer seeks to compete internationally on the basis of low wages, but rather in innovative, higher value added products and services. For higher value added activities, the availability of skilled personnel at competitive rates is viewed by the majority of corporations as the most important reason for locating a business in any particular country.

Hungary has historically been renowned for the quality of its educational system; for example, Hungary has produced far more Nobel laureates than one would expect for a country with a population of 10 million. While we are proud of past achievements, we should not rest on laurels of the past, but instead, focus on restoring or maintaining Hungarian eminence in intellectual capital. Hence, there is potential for Hungary to capitalize on one of its strengths, in this brave new world of the “knowledge economy”.

Yet, over the past 10-15 years, there have been dangerous signs of neglect with respect to the Hungarian educational system. For example, in the area of post-secondary education, enrollment has more than doubled since 1990, while real spending has remained constant. Hungary spent 4.54% of its GDP on education in 2000, compared to 4.95% as the average of the EU-15 (source: EUROSTAT). In absolute terms, spending is even lower than the European average, given that Hungarian per capita GDP is approximately half the European average. **There is a danger that unless Hungary places more emphasis on developing its educational system, it will lose relative competitive advantage to other countries that focus on this key factor.**

The American Chamber of Commerce in Hungary (“AmCham”) recognizes education as being of outstanding importance for the development of national competitiveness. AmCham has established a separate Competitiveness Committee to examine the most important factors that contribute to Hungary's competitiveness, to stimulate thought on how to improve the country's position, and to create a dialogue among Hungarian decision-makers and AmCham members on these key subjects.

AUTHORS:

AMCHAM COMMITTEE FOR THE ENHANCEMENT OF HUNGARY'S NATIONAL COMPETITIVENESS

The degree to which Hungary enhances its competitiveness within the European Union and within the Central European region will have enormous impact in a vast number of areas. Our Committee's mission is to stimulate thought and action in the direction of enhancing Hungary's national competitiveness in the framework of EU accession. The Committee welcomes new members, who wish to join our activities.

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AmCham’s recommendations to Chapter I:

- The State should give institutions of higher education direct financial control over independently garnered non-state funding, allowing them to become more independent, proactive and market oriented;
- Qualitative criteria should be carefully defined, and should serve as a precondition for educational institutions receiving state subsidies;
- More flexible reward and employment structures should be introduced for university and college staff;
- Alumni organizations should be introduced or strengthened to provide an additional source of financing and to create a feedback loop that allows curriculum development to better meet the needs of the business sector.

The Competitiveness Committee has produced three seminal reports to date: *AmCham White Paper on Taxation*; Position Brief No. I on *Encouraging Foreign Direct Investment in Hungary*, and this present Position Brief No. II on Education. (These papers, including the recently prepared Discussion Paper on Education, can be downloaded from the AmCham website: [www.amcham.hu /Position Briefs & Papers.](http://www.amcham.hu/Position%20Briefs%20&%20Papers)) AmCham also has an Education Committee, which has initiated a number of programs – internship fairs, company-oriented seminars on how to establish effective internship programs, and student-oriented seminars on interviewing techniques and Curriculum Vitae preparation – to provide universities, companies and students additional tools to enhance their competitiveness.

The issue of improving or reforming the educational system in Hungary cannot be considered independently from its evolution in the European Union. In 1999, twenty-nine European countries, including Hungary, signed the Bologna Declaration, which sets a common, harmonized European approach towards creating a European area for higher education, to help underpin the competitiveness of Europe on a global level. The European Union itself realizes that its educational systems lag behind other parts of the world in certain respects. Hence Hungary must strive to reach European standards while European Union countries simultaneously strive to further develop their own educational systems.

The Bologna Declaration is legally binding on signatory countries, and full compliance is expected by 2010. The Declaration deals with the structure (B.A. / M.A. / Ph.D.) and content of higher education curricula, ensuring that they are comparable and that they meet pan-European quality assurance standards. All these are necessary to improve the quality of education and the geographical mobility of students and teachers, and, most importantly, to permit Europe’s educational institutions to be competitive on a global scale. It is, therefore, a matter of urgency for the Hungarian Government to harmonize its educational system with the European system, while responding to the needs of business, in the interests of enhancing national competitiveness.

I. Institutions of higher education should have more independence with respect to managing finances

The goal of enhancing national competitiveness, relating to the goals of the Bologna Declaration and better meeting demands of business cannot be met without granting more financial autonomy to Hungarian institutions of higher education, and creating a comprehensive set of criteria that must be fulfilled in order to obtain state funding.

At present, the vast majority of Hungarian universities are state-owned. As funding is currently provided based on head count, the result is a perverse incentive structure where universities stretch their physical capacity to maximize funding, rather than focusing on qualitative criteria or responding to market needs whether the needs of students or business. Furthermore, most universities do not have their own independent bank accounts; all financial transfers are controlled directly by the State Treasury, and the budgets of all state-owned higher education institutions require State Treasury approval. Not only does this restriction apply to state funding, but also to financial resources generated by the higher education institution itself. Any new strategic direction – including the introduction of new curricula more responsive to market needs – is therefore subject to extensive negotiations with various Government institutions, including the Ministries of Education and Finance. The system becomes risk-averse, unwilling to put forward bold initiatives or be proactive – the latter being a requirement of the Bologna Declaration.

The strictness of financial management is not matched by clarity with respect to goals or objectives that must be achieved by institutions of higher learning in order to qualify for state grants. There is an urgent need to introduce qualitative criteria that must be fulfilled in order to qualify for state grants, including satisfying objectives of the Bologna Declaration (e.g. establishment of a linear education system, i.e. the structure of B.A./M.A./Ph.D.).

There is also a need to make Hungarian higher education institutions much more market-responsive, rather than administratively controlled in the interests of national competitiveness.

All Hungarian university and college employees have civil service status, resulting in inflexibility with respect to salary structures, to the detriment of these institutions. The exceedingly narrow range of possible salaries at the low end of the range results in a loss of talent to the educational system. The performance review process is not sufficient to ensure retention or promotion of the best staff, and ensure the quality of education delivered at higher education institutions, or even at secondary or primary schools. This lack of performance measurement results in less interest in maintaining or even increasing the quality of teaching and administration, and makes it impossible to reward exceptional work quality or results accordingly. On the other hand, university and college employees with civil service status cannot be dismissed easily for unacceptably poor performance. Major improvement could be achieved if more leaders with financial acumen and experience were chosen.

The independence and pro-activeness of Hungarian educational institutions could also be enhanced by creating stronger alumni organizations. While a number of institutions have established alumni organizations, they are not operating anywhere near potential, nor to the level of such organizations at leading western European or North American institutions. The creation of more and stronger alumni organizations would serve a dual purpose: (a) contributions from alumni help to increase the financial independence of institutions; and (b) alumni organizations provide a powerful feedback mechanism with respect to the curriculum and demands of the business sector.

II. Curriculum in institutions of higher, secondary and vocational level education should be more reflective of the needs of business

The needs of business are not sufficiently taken into account, at whatever level (vocational or secondary school, college or university). There are major gaps in certain areas (e.g. vocational training), and an inability of the educational system to respond to new areas (e.g. logistics managers). While the educational system turns out large numbers of graduates in disciplines where there is little demand, there are gaps – both qualitative and quantitative – in skill sets required to enable graduates to rapidly become effective and successful in the workforce.

Many multinationals have reacted to this situation by establishing their own corporate academies in order to fill the gap between their needs and the level and knowledge of graduates. The same is true for blue-collar jobs such as welders, where several companies have started their own training in order to ensure the level of knowledge they need. However, corporate academies cannot take over the educational responsibilities of higher education (or vocational) institutions. Furthermore, this means an additional and significant cost that many companies are not willing to pay, making it more attractive for them to locate or relocate their operations to other countries where they will find a properly educated work force.

Not only does the structure and content of available curricula fall short of the needs of companies, but the technical facilities for teaching are also unacceptable. In the current system, teachers must often use obsolete equipment, and pupils therefore acquire outdated knowledge. As a result, the level of practical knowledge of fresh graduates often fails to reach acceptable levels.

The current system implemented by technical middle- and higher-level educational institutions, in which students undertake summer practice with companies, is in most cases inadequate. On the one hand, its brief duration does not allow students to gain a sufficiently deep understanding of the companies in which they are placed; on the other hand, it is not viable for companies to involve students deeply in technical processes and maximize their benefit, due to the students' short time at the company.

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AmCham's recommendations to Chapter II:

- The business community should be more deeply involved in the work of Accreditation Committees, which evaluate and provide accreditation for curricula of higher education institutions;
- The development of internship programs, which improve students' practical skills and levels of experience prior to entering the workforce, should be facilitated. Institutions of higher education should incorporate internships into their curricula, providing a way for students to receive academic credit based on their internships; they should also facilitate relationships between students and companies such that students may undertake paid internships; finally, internship programs should be allowed to receive financing from sums contributed to the training fund (“szakképzési hozzájárulás”);
- Business education should be incorporated into curricula, beginning in secondary schools. High school graduates should acquire some understanding of economics, and some entrepreneurial skills.

...“English language competency must increase dramatically to ensure that Hungary is a beneficiary, rather than a victim of globalization.”...

AmCham’s recommendations to Chapter III:

- A compulsory second language curriculum (e.g. one hour per day, with an emphasis on English) should be introduced as early as possible;
- Internationally recognized standards should be incorporated into language assessment;
- Schools should be encouraged to offer the possibility of bilingual education;
- A program should be introduced providing supervision and support by qualified mentors to beginner teachers, or a one-year internship (i.e. a compulsory year for teaching) should be added to the curriculum of students studying to become English teachers. During this period, students should be properly supervised and supported by qualified mentors;
- Native teachers should be encouraged to work and teach in Hungary;
- The exposure of Hungarian students and people to foreign languages should be increased in daily life (e.g. by increasing the proportion of TV broadcasts with subtitles, rather than dubbing).

III. The learning of foreign languages, particularly English, needs to be substantially strengthened in Hungary

As the labor market in Hungary evolves from a blue-collar base to higher value-added jobs, the importance of language skills grows. With Hungary’s accession to the European Union, the Hungarian economy will become increasingly integrated, and there will be an increasing demand for language skills. Hungary’s traditional focus on the German language, especially in areas near the Austrian border and Budapest, is gradually changing, while English language knowledge is catching up. However, English language competency must increase dramatically to ensure that Hungary is a beneficiary, rather than a victim of globalization.

Hungary has lagged significantly behind Western European countries with respect to language competency. Approximately 53% of Europeans have competency in a second language, compared to 19% of Hungarians. A March 2002 Eurobarometer survey places Hungary last in foreign language knowledge among the current EU accession countries.

Human Resources Directors and Managers of foreign companies often complain about the level of their Hungarian employees’ English knowledge. Expatriate managers often spend valuable time translating “Hunglish” into English. Many companies offer internal courses to remedy the problem, accepting the cost and loss of working time.

The Hungarian Government could enhance motivation of students to learn languages by establishing university entrance criteria that place heavy weight on high degree of language competency.

There is anecdotal evidence that language learning accelerates considerably in countries that provide subtitles, rather than dub TV programming. Ironically, this helps explain why some of Hungary’s poorer neighbors have higher levels of language proficiency.

Language teachers often have financial incentive to enter the business world; many of them abandon their original profession for higher financial benefits. This contributes to the inadequate level of language teaching.

Public Expenditure on Education as a Percentage of GDP

