

Crisis and change in industrial relations in Central and Eastern Europe

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Abstract

This article introduces the Special Issue on industrial relations in Central and Eastern Europe since the financial and economic crisis. Already dependent economically on funding from the west and lacking the robust industrial relations institutions traditional in much of Western Europe, countries in the region were particularly vulnerable. However, there are important cross-national differences, and the strategies of key actors have significantly affected the outcomes.

Keywords

Central and Eastern Europe, crisis, governments, multinational companies, regime variations, shock therapy, trade unions

Introduction

The collapse of the Soviet bloc in 1989 was followed by the rapid incorporation of the countries of Central and Eastern Europe (CEE) in the market economy of the West and more gradually in the institutional framework of the EU. The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia were admitted in 2004; Bulgaria and Romania in 2007; and Croatia in 2013. The new members agreed to comply

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with the requirements for eventual adoption of the euro, although there was no formal requirement or timeline for this. Slovenia joined the eurozone in 2007, followed by Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015).

As Epstein and Johnson (2010: 1257) note, EU accession requirements, which opened their markets to foreign investment, and actual or anticipated eurozone area entry made the new member states extremely vulnerable to the international financial crisis of 2008, yet the crisis itself initially made these countries more eager to adopt the euro. With the crisis, their new West European export markets collapsed, foreign-owned local banks slowed down credit provision and loans in foreign currencies became difficult to service.

The social, political and economic consequences of the global financial crisis are still unfolding across Europe. In addition, the CEE countries are still undergoing processes of transformation (Barr, 2005; Soulsby and Clark, 2007; Stark, 1992; Stenning, 2005) and are expected to carry on their progress towards institutional stability. However, in the current 'age of austerity', the EU leaders have struggled to maintain internal political unity, consensus and cohesion (Hoffmann et al., 2003; Meardi, 2012; Woolfson, 2007). These pressures have been reflected in the reassertion of national identity, the rise of nationalist political parties and challenges to the authority of the EU by Poland and Hungary (Auer, 2010; Epstein and Jacoby, 2014). There is financial and political conflict and disagreement caused by the economic weakness of some eurozone members and the neoliberal prescriptions for cuts in government expenditure, especially on social and welfare support, and for labour market deregulation. The economic crisis has also had an effect on foreign direct investment (FDI) in CEE.

Arguably, critical academic observation and scrutiny in recent years have shifted from the 'post-socialist' countries of Europe: partly because of an erroneous assumption, reinforced by policymakers, that transition has 'run its course' and partly because the dramatic imposition of austerity in Southern Europe and the scale of popular protests have taken over the limelight. Yet it is poignantly and distinctively clear that the 'neoliberal' experiment that commenced in CEE in the early 1990s to integrate the 'post-socialist' states holistically into the global economy has in fact led to rupture, dependency and polarization of historical fortunes. In this region where powerful notions of social cohesion and inclusion have given way to a commodified version of capitalist labour and labour markets, the 'pull of institutional history' continues to render the socio-economic territory one in which the forces of modernization and privatization are juxtaposed with statutorily based measures for social protection and employment security. The financial crisis has led, for major sections of the working and non-working population, to accelerating and unprecedented degrees of marginalization and exclusion from the mainstream global economy and its material benefits. It is through the study of evolving and systematically deteriorating industrial relations in the region that purchase can be acquired on the vacuous nature of Western-inspired 'institution-building' since the 'turn' of the late 1980s, together with the reality of the fragmented and tortuous nature of the transformation process, leading to profound institutional instability and flux. The work environment increasingly displays volatility, precariousness, risk and uncertainty, causing extreme insecurity and fear for the future (Bernhardt and Krause, 2014; Croucher and Morrison, 2012; O'Reilly et al., 2011). Given these unprecedented social and economic challenges,

the guest editors of this Special Issue have collected research articles which increase understanding of their impact and the responses of the actors affected.

The consequences of ‘shock therapy’

Almost 30 years after the fall of the Berlin Wall, it is evident that the mainstream, Western-inspired economic theories that guided the reform process at its earliest stages, instigated by Western agencies, failed to account for the pull of diverse institutional histories across CEE, rendering socio-economic shifts towards capitalism both uneven and fragmented (Hardy, 2014). The political and economic upheavals of the 1990s, resulting from the collapse of communist governments and the vacuum of regulatory frameworks, subjected the ‘post-socialist’ countries to institutional transfer from international sources. In the early years, the neoliberal economic approach predominated, supported by such institutions as the International Monetary Fund (IMF), the World Bank and the European Bank for Reconstruction and Development, which provided financial assistance to the region (Amsden et al., 1994; Lavigne, 1999; Whitley and Czaban, 1998). This entailed legislative changes to demolish the structures of the former command economies and introduce market institutions. Neoliberal economists argued for ‘shock therapy’, involving the immediate introduction of free market conditions and institutions together with the dismantling of the inherited social, economic and political structures from state socialism (Hoën, 1996). The radical top-down approach influenced political and economic policy across the region. Poland, for example, adopted this approach to effect macroeconomic change and stabilization in 1990 (Lipton and Sachs, 1990). The voucher privatization programme in the Czech Republic is often cited as an example of the same approach at the micro level (Dlouhý and Mládek, 1994; Edwards and Lawrence, 2000; Gray, 1996).

The transformation of the former command economies, with their politically defined levels of virtually zero unemployment, into market economies was expected to engender short- to medium-term unemployment. This would occur because the inefficient state sector would lay off excess workers in ‘an instantaneous adjustment of rational agents’ (Hoën, 1996) in response to the signals and incentives of the new market institutions. The more quickly prices and trade were liberalized and competition grew, together with the state regulations and policies to enforce hard budget constraints, the more public sector jobs would be shed. The faster commercial codes and laws were implemented and state property privatized, the more capable a competitive new private sector of absorbing the high unemployment. Neoliberal economists regarded the short-term pain of shock therapy as necessary to establish the basis of a successful transition process to ‘modern’, Western-style market democracies (Sachs, 1996). The rapidity of radical legal change was also intended to minimize the degree to which former *nomenklatura* could ‘privatize’ state assets to their own advantage (Brom and Orenstein, 1994: 94; Pearce and Branyiczki, 1993) and undermine the ability of social forces to mobilize opposition (Sachs, 1996: 29; Wheaton and Kavan, 1992: 127ff). Some prominent liberal economists viewed attempts to slow down the transition as almost treasonable, as they gave the communist system (or elements of it) a chance for survival or revival (Brom and Orenstein, 1994; Holy, 1996).

By the mid-1990s, the social and economic consequences – and the human costs – of the early post-communist decisions were apparent. As anticipated by evolutionary economists who favoured a gradual phasing out of old institutions (Murrell, 1992) and institutional sociologists (Elster et al., 1998; Stark, 1992; Whitley and Czaban, 1998), the transition process was far more complex than the design implementation of new formal institutions (Hoen, 1996). The costs of burgeoning unemployment and social welfare were inevitably financed by loans from the advanced economies, resulting in a ‘transnational variety of capitalism’ (Bohle and Greskovits, 2007) or ‘dependent market economies’ (Nölke and Vliegenthart, 2009).

Paradoxically, economic and political restructuring on neoliberal lines was accompanied by elements of the social partnership model which was part of the Western European ‘social model’. At face value, tripartism recognized the role of the representatives of labour and employers as agents of change, enhancing the legitimacy of marketization among the population at large which, according to Simai (2006), retained deeply egalitarian values. However, ‘top down’ tripartism, while reducing social tensions in the early stages of reform, left an ‘institutional vacuum’ as sub-national institutions failed to take root (Martin and Cristescu-Martin, 1999). Ost (2000) has termed this ‘illusory corporatism’, while Meardi (2007) refers to ‘socially constructed’ or ‘façade’ institutions. In the absence of robust institution-building, Vickerstaff and Thirkell (2000) found that tripartite arrangements merely constituted a ‘political shell for neoliberalism’.

The complex nature of transition across the region was evident in the slow realization of desired outcomes and the different paths that countries took as a consequence not just of the post-communist period but also the effects of national culture and history (Brider and Pine, 1998; McDermott, 2002). The social enactment of new market structures was affected by the legacy of habitualized customs and practices that were accepted as socially legitimate and routinely reproduced by economic actors. Economic transition was inevitably a gradual and evolutionary process of change and there is evidence that enterprises subject to gradual pressures for change adapted more effectively than those trying to survive in a shock therapy environment (Estrin et al., 1995).

The financial and institutional crisis: Another turn of the screw

In the aftermath of the global financial crisis, the constituent countries of the enlarged EU remain profoundly divided in economic and social terms (Rubery, 2011), with the CEE remaining locked into poorly financialized and lower technology systems in comparison with their more advanced Western counterparts (Barr, 2005; Clark and Geppert, 2006; Hardy, 2014; Soulsby and Clark, 2007; Stark, 1992; Stenning, 2005). During the course of their transition from state socialism to capitalism, CEE countries had constituted prime subjects for neoliberal economic prescriptions for ‘reform’, notably as asserted by the ‘Troika’ (the European Commission, the European Central Bank and the IMF). But far from such economic orthodoxy becoming discredited or even reconsidered in the wake of the global financial turmoil of the late 2000s, such liberal market economic ‘medicine’ has been dispensed to the CEE countries with even greater alacrity

since the financial crisis. This has created disproportionate social and economic detriment among the working populations of CEE and is manifested in profound income disparity between rich and poor, high levels of precariousness in employment, emigration, homelessness and the dismantling of already fragile systems for social welfare provision as well as institutional arrangements for collective bargaining and social partnership. The crisis exacerbated trends already in place before 2007, reflecting institutional path dependencies as well as new and unpredictable departures (Stanojević and Klarić, 2013).

Central to the institutional crisis engulfing CEE in the early stages of transition was a contradiction between the ideological assumptions of neoliberalism and the practical measures required to accomplish institutional reform. As Simai (2006) asserts, market-making required significant governmental intervention. In reality, therefore, the weak and fragmented transitional model was underpinned by a dominant role of the state (Kohl and Platzer, 2007), and tripartite arrangements were always 'tipped towards government' (Ost, 2000). Furthermore, the central role of the state was in keeping with cultural preferences of populations which expected governments to regulate such matters as employment and health care. Yet 'weakly institutionalized industrial relations are more open to pressure and therefore more volatile in due course, depending on the state of the economy and who is in power' (Visser, 1996: 6).

Before the crisis, a variety of institutional arrangements had become evident in the region, a consequence of national legacies and the political choices of reform elites. Bohle and Greskovits (2007) stress the significance of 'elite structures, institutions and political decisions for the emergence of different types of capitalism', but their account of emerging diversity in the region also demonstrates the salience of transnational influences in shaping industrial transformation and social inclusion (p. 463). Their account of 'regime variations' across CEE comprises three broad classifications. First, as an advanced economy, relatively strongly integrated with the west, 'neo-corporatist' Slovenia established a robust model of tripartite policy-making and multi-employer collective bargaining. Trade union density is relatively high and social indicators favourable. Since independence, Slovenia attracted sustained and relatively high added-value FDI. Second, the Baltic States (Estonia, Latvia and Lithuania) implemented radical liberal market measures in order to achieve rapid transformation, causing substantial deindustrialization and a focus on service sector FDI (Glassner, 2013). Macroeconomic stability has been favoured over labour market protection and welfare provision (Bernaciak, 2015). Trade unions are marginalized, and collective bargaining arrangements are weak and fragmented. Given their openness to Western financial markets, they have been particularly vulnerable to the economic crisis and subject to severe austerity measures. Bulgaria and Romania also approximate to the neoliberal model, being heavily financialized, engaging in lower range production and offering minimal social protection. However, in this region, the consultative rights accorded to trade unions have been well established and collective bargaining coverage relatively high. Finally, the Visegrád countries (the Czech Republic, Hungary, Poland and Slovakia) occupy an intermediate position. Here, some success has been achieved in building complex and competitive export industries and establishing institutions to offer social welfare and facilitate industrial policy-making. Bohle and Greskovits describe countries in this region as 'embedded

neoliberal' regimes. In this cluster, however, organized labour has largely been excluded from institutional policy-making (Bernaciak, 2015), trade union density is generally low and collective bargaining is weak and fragmented, occurring mainly at company level.

Bernaciak (2015), examining the effects of the crisis on the new EU member states, concludes that the anti-crisis measures generally had a highly detrimental effect on industrial relations structures and collective bargaining mechanisms while also drawing attention to the 'broad spectrum of differing individual country experiences' (p. 6). There were variations in the timing of economic downturns, the form and severity of austerity measures as well as to the initiatives to restructure industrial relations. Myant and Drahokoupil (2011) draw a broad distinction between countries integrated into the global economy through FDI in the manufacturing sector, for example, Slovenia and the Visegrád states, and those which relied primarily on external financial inflows to support local consumption and investment, in particular the Baltic States. Broadly, the effect of the crisis in what Becker and Jäger (2010) term the 'dependent industrialization' countries has been to bring about a rapid decline in exports, causing job losses in manufacturing and work stoppages. For the 'dependent financialization' cluster, the most evident outcome was the drastic cutting of budgetary expenditure on public sector wages, social benefits, health care and education (Bernaciak, 2015). More generally, the crisis was deeper and more enduring for countries relying on financial support from abroad than in those that had upgraded their manufacturing structures on the basis of FDI.

The trajectories of industrial relations restructuring during the crisis largely match the 'regime variations' described above. In the Baltic States, ravaging austerity measures led to the fragmentation of collective bargaining and to even further deregulation of labour markets, heightening employment flexibility. Here, trends towards decollectivization of the employment relationship were accelerated. In the Visegrád countries, an increase in plant and sectoral level bargaining occurred, in a concerted attempt by trade union representatives and management to mitigate the adverse effects of declining exports (Myant and Drahokoupil, 2011). In order to protect relatively highly skilled workforces, measures such as working-time flexibility, short-time working and production stoppages were introduced (Bernaciak, 2015). 'Social dialogue' was initially intensified in a number of countries, arguably as a public relations effort by government to demonstrate that a concerted effort was being made to avert the most adverse effects of recession (Bernaciak, 2015). In practice, however, tripartite mechanisms were invariably bypassed or 'neutralized' as governments embarked on more resolute and unilateral programmes to implement fiscal austerity. In Slovenia, although the 'neo-corporatist' approach to consensus between the social partners was retained throughout the crisis, their influence on the state declined (Glassner, 2013), with growing governmental unilateralism.

Trade unions in CEE, whose organization and structure had been in a state of flux over the period of transition, experienced dwindling membership, a diminution of consultation rights, a decentralization of bargaining structures and a dilution of labour codes (Bernaciak et al., 2014). In a climate of apprehension, the response of organized labour to draconian actions by employers and governments has been understandably muted, yet there have been some notable examples of resistance and overt expressions of social unrest across the region. We would note, in particular, the protests of thousands of public sector workers in Romania in May 2010 against planned cuts to wages and pensions, as

well as the mobilization of thousands by the three Lithuanian Confederations outside the Parliament building in January 2009. Perhaps paradoxically, as Bernaciak et al. (2014) suggest, despite the ravaging effects of austerity measures on trade union organization, CEE unions have found ways to respond to serious adversity in an imaginative and resourceful fashion. In some cases, this has taken the form of a re-politicization of union identity as leaders have moved to the fore in mobilizing the working population against the elite-driven affronts on social and employment entitlements. In others, more practical measures have been taken to rekindle trade union activism, notably through the utilization of social media for communication purposes and through offering voice to marginalized and precarious groups as well as those operating in the shadow economy.

Contributions to the Special Issue

The contributors to the Special Issue approach the question of the post-financial crisis uncertainty in CEE from a variety of research trajectories. They cover a range of post-socialist nation states, including the Czech Republic, Hungary, Latvia, Estonia, Slovakia, Slovenia and Russia. While a number of contributions adopt a regional or macro-level ‘sweep’ of emerging trends and issues, others focus on comparative industrial relations dynamics between specific countries or indeed explore comparative developments close to the workplace within a single transnational enterprise. The range of industrial relations and employment issues addressed is undoubtedly diverse and even eclectic, yet all can be traced back to the underlying theme of volatility and uncertainty in the context of social and economic upheaval.

In her article, Lissowska examines radical change in labour markets in post-transition countries as they have shifted away from full employment and strong legal protection for employees. Since the crisis, pre-existing trends towards income inequality and poverty, associated with a rise in household debt, have been exacerbated through the increased flexibility of labour markets and structural weakness of trade unions. While variations occur across the region, according to the reform paths adopted by individual nation states, a general trend has been towards deepened recession through the hampering of consumption.

The theme of institutional diversity is pursued by *Feldmann*, who contrasts ‘varieties of capitalism’ in Slovenia and Estonia. Slovenia has possessed unique institutional status within the region, with corporatist industrial relations structures and highly centralized wage bargaining, while Estonia exemplifies a liberal market economy where industrial relations are decentralized and individualized. He asks whether these distinctive institutional configurations have shaped the responses to the crisis and whether the particular structural arrangements have remained intact in the wake of recession. While substantial continuity is apparent in Estonia, considerable institutional change has occurred in Slovenia; this partly reflects the duration of the crisis in each country and policy responses of those in power.

Investigating the gender impact of the economic crisis on the Czech labour market in the broader context of the Visegrád region, *Hašková and Dudová* conclude that an increase in precarious forms of employment poses a particular threat to already vulnerable groups who face social exclusion. Women who have to care for dependent family

members have been particularly disadvantaged by labour market reforms which have marginalized the interests of labour and have promoted *refamilialization*, which implies the shifting of childcare responsibilities from the state onto women themselves. Since the crisis, the vicious circle which excludes women from ‘standard’ employment through their occupancy of a succession of insecure jobs has become exacerbated through an interplay of objective and subjective factors.

The remaining articles all deal with the role and status of trade unions in the wake of the financial crisis, albeit from different perspectives. *Korkut, de Ruyter, Maganaris and Bailey* examine union revitalization in Hungary and Latvia, where mobilization has been required against government austerity programmes and cuts in public sector employment. However, trade union responses to such neoliberal measures have been compromised by declining membership bases, weakened social dialogue mechanisms, limited industrial representation and an ageing membership, exacerbated by net outward migration. The Latvian and Hungarian trade unions have varied considerably in their approaches to revitalization and membership retention: while a new generation of Latvian union leaders has adopted new methods to communicate with and attract younger workers, their Hungarian counterparts have tended to remain dominated by a presidential elite who appear oblivious to the concerns of their members. If trade unions in CEE wish to mobilize successfully against the current neoliberal orthodoxy, they will need to renew their appeal, particularly to younger workers.

Challenging the (arguably) widely held view that CEE trade unions are weak and irrelevant, *Ivlevs and Veliziotis* utilize data from 21 countries to explore ‘what do unions do?’ in times of economic crisis. They conclude that trade union membership has indeed generated significant benefits, with members being less likely than comparable non-members to lose their jobs, this being particularly pronounced in the countries hardest hit by the recession. However, union members are also most likely to experience wage reductions, which suggests that concession bargaining has been occurring across the region.

Hinz and Morris compare industrial relations in production sites of a single automotive firm in Slovakia and Russia. Using a working-class power framework, they uncover mechanisms for interest representation across ‘varieties’ of post-socialist labour contexts. In Slovakia, associational power and institutional power are well developed, with industrial relations and structures in the workplace strongly influenced by the German headquarters. In Russia, structural power remains strong since the enterprise occupies a favourable market position, but the opportunities for transforming this into lasting associational power remain limited, and unconventional methods are deployed to further worker interests. In the face of neoliberal work intensification through globalization, the most urgent changes need to take place in country-specific contexts of industrial relations.

In concluding this introduction, we offer some reflective commentary on debates surrounding the current status of industrial relations in CEE, in the light of the contributions outlined above. First, it is evident that the failures of institution-building in the region prior to the crisis have intensified the economic and social instability experienced in its wake. As suggested by Visser (1996), weakly institutionalized industrial relations during the reform process were always prone to disintegration in times of severe economic

difficulty, allowing the interests of capital to be asserted in an unbridled fashion. The spectrum of issues raised in this Special Issue reflects an institutional environment which permits the intense subjugation of labour, paving the way for neoliberal policy measures enacted by resurgent governmental and transnational interests. While ‘varieties of capitalism’ may still be evident across CEE, the recent experience of Slovenia is noteworthy, as the only country in the region which followed a genuinely ‘neo-corporatist’ path appears to be undertaking liberal market structural retrenchment, perhaps signalling a trend towards regional convergence along ‘neoliberal’ lines.

A major area for current debate concerns the status and role of trade unions in CEE in the broader context of destabilization. While some commentators have called for a re-politicization of labour movements to counter the worst effects of austerity measures, our contributors tend to point towards the need for unions to engage in ‘real politics’, by re-engineering their leadership hierarchies, structures and organizational mechanisms to appeal to a new breed of younger workers in particular, who are connected to the global economy but disenfranchised in their own countries.

Finally, this Special Issue highlights the pressing issue of social exclusion at a time and in a place where the gap between ‘winners’ and ‘losers’ is extreme. We have discussed the predicament of women with care responsibilities, but could also mention other categories of ‘losers’, including pensioners, the less educated, the rural population and those who live in small towns, certain ethnic groups and particularly the Roma population (Simai, 2006). Along with the areas indicated above, the full extent of social exclusion demands further and extensive research.

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