European University Institute

Department of Political and Social Sciences

Creating Capitalist Labour Markets : A Comparative-Institutionalist Analysis of Labour Market Reform in the Czech Republic and Hungary, 1989-2002

by

Maarten Keune

Thesis submitted for assessment with
a view to obtaining the Degree of Doctor of the
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Florence, November 2006

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Preface

This thesis would not have been possible without the help and encouragement of many friends and colleagues. First of all, I am deeply indebted to Colin Crouch for being such an inspiring example, for his invaluable and unconditional support, and for his great humour. I would also like to thank, in no particular order, Jiri Večerník, László Bruszt, Paul Blokker, Alena Nesporova, Lou Keune, András Tóth, László Neumann, Peter Wagner, Petra Stepankova, András Bozóki, Bori Simonovits, Endre Sik, and others for, in one way or the other, knowingly or unknowingly, contributing to the writing of this thesis. All mistakes are mine.

MK, Brussels, 1-3-2006

Para Martha

Abstract

The present study presents a comparative neo-institutionalist analysis of labour market institutions in the Czech Republic and Hungary in the period 1989-2002. It aims to contribute to the contemporary debates on institutional continuity and change, varieties of capitalism, and post-socialist capitalist development. It presents an analytical model combining a variety of elements from different neo-institutionalist schools and applies this model to the two cases of post-socialist institutional change. The analysis presents converging and diverging developments in the two cases, and explains the direction of change.

It is concluded that although both countries adopted a series of similar basic institutions, regulating the basic principles of property rights, industrial relations and the employment relationship, institutional reform at the lower levels followed quite different trajectories and labour market institutions limit the role of the market to a much larger extent in the Czech Republic than in Hungary. Also, major differences can be observed both within each case, between different institutional domains, and over time.

The change of institutions in the two cases is then explained by the ideas and interests of the (domestic and international) actors shaping these institutions; their power relations and patterns of interest representation; the historical backgrounds of the cases; the international ideational context in which change takes place; and the feedback from different outcomes that the process of change produces. The similarities and differences concerning these factors, as well as the interaction between them, account for convergence and divergence between the cases.

Chapter 1 Post-socialist capitalism, institutional change and the labour market.

1.1 Introduction

Aims of the study

The present study presents a comparative neo-institutionalist analysis of labour market institutions in the Czech Republic and Hungary. It sets out to achieve three main objectives. First, it aims to contribute to the contemporary debate on institutional continuity and change. Whereas neo-institutionalist analysis for a long time focused its efforts on demonstrating and explaining institutional continuity, more recently increased attention has been devoted to institutional innovation and change. As will be discussed below, in the past decade or so much attention has been devoted to the question if institutional change is evolutionary or revolutionary. Also, many arguments have been forwarded as to which of the different types or schools of neo-institutionalism would be best equipped to explain institutional change. However, this debate has made only limited headway in developing more comprehensive explanatory models that help to understand why and how institutional change takes place (or does not take place) and what direction it takes. In this study I will develop such an analytical model, which I will construct by combining a variety of elements from different neo-institutionalist schools. I will then apply this model to the two cases, using it to develop a comparative empirical analysis of the development of labour market institutions in the Czech Republic and Hungary. This analysis aims to present converging and diverging developments in the two cases, and to explain the direction of change.

Second, the present study aims to contribute to the debate on post-socialist change, which has become a separate debate in the literature. Since the early 1990s, this debate has been dominated by modernization theorists and structuralists (although important institutionalist examples exist as well). I will present a brief critique on these approaches and will present my approach as an alternative to them.

Third, the empirical analysis has its own value by presenting a detailed account of the construction of capitalist labour markets within their broader historical,

political and economic context. In this way, it contributes to a better understanding of the type(s) of capitalism constructed in the former state socialist countries.

Research questions and cases

Studying institutional change in the former state socialist countries is of particular interest. The demise of state socialism and the turn to capitalism in Central and Eastern Europe (CEE) has undoubtedly been the most radical project of institutional change of the past half century. Indeed, unlike studies on western countries, in CEE there can be little doubt that institutional change has indeed taken place and that it has been profound. This raises a number of interesting questions. How to understand the process of institutional change that has taken place since 1989 and how is this embedded in the history of the former state socialist countries? What types of capitalism(s) are emerging in this region and to what extent are there converging and diverging tendencies? What accounts for the particular response of the individual CEE countries to the common challenge of creating capitalism? In the present study I will contribute to answering these questions through a comparative analysis of the Czech Republic and Hungary, and focuses on a key dimension of contemporary capitalism which has been at the heart of post-socialist transformation, i.e. the two countries' labour market institutions. Two broad questions will be addressed in this study:

1. What is the nature of the labour market regimes that have been emerging in the two countries and to what extent do these show similarities and differences? As will be discussed in more detail below, labour market regimes consist of the labour market institutions – rules and regulations – that regulate or co-ordinate labour market action, the actors that create and uphold these institutions, as well as the structural features of the labour market, i.e. employment and unemployment rates, the incidence of various types of employment, working time patterns and wage levels.
2. Which factors have determined the course of change of the labour market institutions in the two countries after the breakdown of state socialism, and why they have not developed in other possible directions. Or: what accounts for the particular response of each country to the challenges of building capitalist labour markets? Here I will consider the role of various national and

international actors in producing continuity and change, the historical, institutional and structural context in which they operate, as well as the role of power, interests and ideas.

The selection of the cases of the Czech Republic and Hungary for this comparative analysis presents some distinct advantages. On the one hand, they have similar basic characteristics, which allows for a sensible comparison. The two countries have an almost identical population size, about 10 million, as well as geographical location, at the heart of Europe, and on the western extreme of the former state socialist bloc. Also, within the group of CEE countries, they both belong to the upper segment in terms of *per capita* Gross Domestic Product (GDP), even though this has historically been higher in the Czech Republic than in Hungary. In addition, both have recently become members of the European Union (EU).

On the other hand, at the start of the process of post-socialist transformation the two countries differed markedly in terms of actors, institutions and structures, outcomes of quite distinct histories. A full historical account will be presented in chapter 2; here it suffices to point out that in 1989, Hungary was the main examples of reformed state socialism while Czechoslovakia was a main example of more orthodox state socialism. This concerned the economies of the two countries in general and more in particular their labour market regimes. In addition, also their longer-term historical trajectories were markedly different as we will see in chapter 2.

The comparison of the Czech Republic and Hungary thus allows for the analysis of the creation of post-1989 capitalism in two diverse historical, institutional and structural contexts. Since 1989, dramatic changes have occurred in the labour market regimes in the two cases, as will be shown in the subsequent chapters. Indeed, the labour market has been at the very heart of post-socialist transformation. This, on the one hand, because of its fundamental importance in the creation and functioning of the newly capitalist economies and their achievements in terms of economic growth, competitiveness and efficiency. On the other hand, because of its pivotal importance in terms of labour standards, social exclusion, and income distribution.

The comparison of two cases of course raises questions concerning the generalisability of the results of the study, to what extent conclusions drawn on these two cases can be extended to other cases. My claim here is however not that the conclusions that will be drawn about the nature of the labour market regimes in the

two countries and the factors explaining the course of change of labour market institutions can simply be extended to other (post-socialist) countries. Rather, my intention is to construct an analytical model to study the two cases and see how it manages to cope with them. If it works well, this would suggest that it could be applied usefully to other cases as well. The conclusions on the two cases can then also be used to generate hypotheses on other cases.

In the following sections, I will discuss the above-posed questions, their theoretical background, and their operationalization in detail. In section 1.2 I will define and operationalise the labour market regime concept. In section 1.3, I will provide a critique of the mainstream approach to the study of post-socialist transformation and will discuss the various elements of my alternative analytical model based on the key insights of the different variants of neo-institutionalism. In the last section of this chapter (1.4) I will then present this model and outline the analytical strategy I will follow in the rest of this study.

1.2 Labour market regimes

As mentioned above, one of the two main questions this study aims to address concerns a comparative analysis of the labour market regimes that have been emerging in the Czech Republic and Hungary since 1989. To this effect, I will explore the ways in which the two labour market regimes have evolved after the demise of state socialism, and will present a detailed account of the state of the two cases at the beginning of the 21st century. In the present section, I will outline the way I set up the analysis of the two labour market regimes.

A labour market regime comprises the labour market institutions – rules and regulations – that regulate or co-ordinate labour market action, the actors (or organisations) that create and uphold these institutions, as well as the structural features of the labour market, i.e. employment and unemployment rates, the incidence of various types of employment, working time patterns and wage levels. Labour market institutions constitute the central subject of the present study and it is the change in these institutions in the period 1990-2002 that I aim to explain. Labour market institutions constrain and discipline social actors by placing boundaries on agency, and, at the same time, facilitate social action by reducing social complexity and increasing predictability. In this way, they set the 'rules of the game', and provide

stability and predictability. My analysis centres on the concrete forms labour market institutions take, that is, on employment-oriented economic and social policy, labour market policies, wage policy, labour legislation, and collective agreements.

Labour market institutions exist by the grace of actors producing, maintaining and enforcing them. Together they form the system of labour market governance, that is, the entirety of institutional arrangements – including rules and rule-making agents – which co-ordinate or regulate labour market action.[1] The actors I focus on in this study are the state, trade unions and employers, as well as international actors, in particular the EU and the IMF. In particular, I will spell out how and why the state, trade unions and employers, as well as international actors like the EU and the IMF, have influenced (or attempted to influence) such regulations, policies and agreements, and through these, the functioning of the labour market in terms of the creation and destruction of employment, labour market flexibility, or the content of the employer-employee relationship.

My analytical strategy to answer this first main question is closely linked to the political and ideational context in which the post-socialist creation of capitalism has taken place. As will be discussed in more detail in chapter 3, in the 1990s, the global debate on economic governance in general, and labour market governance in particular, was to a large extent dominated by the neo-liberal discourse proclaiming the superiority of market governance. Within this context, in particular in the early 1990s, post-socialist transformation was by many observers deemed to be largely a process of market making, of replacing state-dominated governance regimes by market-dominated governance regimes. Although, as I will argue later, picturing the building of capitalism in CEE in this way is unproductive, because of its political and discursive importance I will use it as a backdrop for my analysis.[2] I will start from the ideal-type neo-classical market economy, a social order in which economic processes are exclusively co-ordinated by market mechanisms, and will set out to determine to what extent the two labour market regimes in the Czech Republic and Hungary are at variance from this ideal type.

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[1] This definition is inspired by the governance school. The governance school studies the way economic action is co-ordinated through a series of coexisting modes of governance, ranging from the state and the market, to micro-hierarchies (firms, organisations), networks, associations and community (see e.g. Crouch 2003; Hollingsworth and Boyer 1997; Le Galès and Voelzkow 2001; Hollingsworth, Schmitter and Streeck 1994).

[2] My approach here is similar to that of Streeck (2001) who uses 'standard' or 'liberal' capitalism as an ideal type and backdrop for his study of the 'non-liberal' capitalisms of Germany and Japan.

Two things have to be specified here: what exactly is an ideal-type neo-classical labour market in institutional terms; and how can we analyze the extent to which the two really-existing labour markets vary from it. As far as the ideal-type neo-classical market is concerned, instead of understanding this, as common in economics, as a situation of full competition in which the behaviour of rational self-interested individual actors is guided by the mythical 'invisible hand', with all its problematic assumptions concerning the economistic model of action of the *homo economicus*, I would rather depict an ideal-type market as a particular institutional context or a specific system of governance. This consists to a large extent of a state that, ultimately through its monopoly on coercive power, guarantees the maintenance of an institutional or regulative environment in which individual actors can conclude contracts with a content to be determined exclusively by these same individual actors, and that guarantees the fulfilment of these contracts.[3] An ideal-type market is then not a situation where the state is absent or of little importance, but one where the state has a very specific part to play. Such a market per definition lacks any other type of collective actors like employers' associations, large enterprises or trade unions.

An institutional definition of the market helps to make the point that capitalism does not equal 'market economy', and helps to clarify that the contrasting of market governance with the other modes of co-ordination does not mean that market governance is deemed superior or is understood to be the 'fundamental' or 'natural' mode of governance of capitalist societies. Indeed, the market is socially constructed and does not represent a separate realm, the economic, that is distinct from the social (Krippner 2001).

To determine how the two labour market regimes vary from such an ideal-type regime then becomes a matter of exploring what the role of the state, unions, employers and their associations, and international actors in the labour market is, and how they, through policies, legislation and collective bargaining, influence the creation and destruction of employment, labour market flexibility as well as the content of the individual employment relationship. This then requires the analysis of the development of the following set of labour market institutions:

[3] This definition resembles a Northian market. Where we are at difference, however, is that North places rational maximising agents within this institutional context, while I see agents as purposeful but not necessarily as maximisers.

- *Employment and labour market policy* (the way employment objectives play are incorporated in the conception of broader economic and social policy; active and passive labour market policies).
- *Wage policy* (minimum wage policy; state wage control; tripartite agreements on minimum and maximum wage increases).
- *Labour legislation* (basic rights and obligations; regulations circumscribing the individual employment relationship in terms of employee protection, working time regulations and wage determination).
- *Collective agreements* (the coverage of collective agreements as well as the content of collective agreements in terms of wages, employee protection and working time regulations).

It also requires the analysis of the role of the following set of actors in the creation and maintenance of these labour market institutions:

- The state
- Trade unions
- Employers' organizations
- International actors *(in particular the EU and the IMF)*

It is important to underline here that particular modes of governance can often only perform their function by virtue of the existence of other forms of governance. As mentioned above, markets cannot exist without the state or regulators like the EU guaranteeing a particular institutional environment. Even more so, and of particular significance in the former state socialist countries, the state or international organisations may well be the market's main promoters, the United Kingdom under Thatcher or the reform programmes promoted by the IMF around the globe being cases in point. Also, modes of governance are not substitutes for each other (as often implied by state-versus-market-type debates). When the state promotes market co-ordination through the creation and maintenance of conditions for markets to function, this does not result in the retreat of the state or a declining importance of state governance. One may rather want to see this as a redefinition of the role of the state. The analysis of modes of governance is then not so much a question of 'how much' of each mode of governance, but rather of what form do the different modes of governance take and what institutional environment results from their co-existence and interaction.

Finally, it is important to point out that the formal existence of a governance mechanism does not necessarily mean that is actually governs the type of action it is intended to govern. Or: there may be a difference between a formally conceived mode of governance (let's say a law) and the mode of governance that actually governs certain types of relations, exchanges or activities. The simplest example here would be regulations concerning taxes or social contributions which are not respected. Another example would be an employer who decides to increase wages above the rate agreed in a Social Pact or General Agreement. In more general terms, such events can be understood as instances of 'governance failure', the failure of a given mode of governance that is supposed to co-ordinate certain types of action to actually do so. Indeed, any type of governance is necessarily incomplete (Jessop 1998).

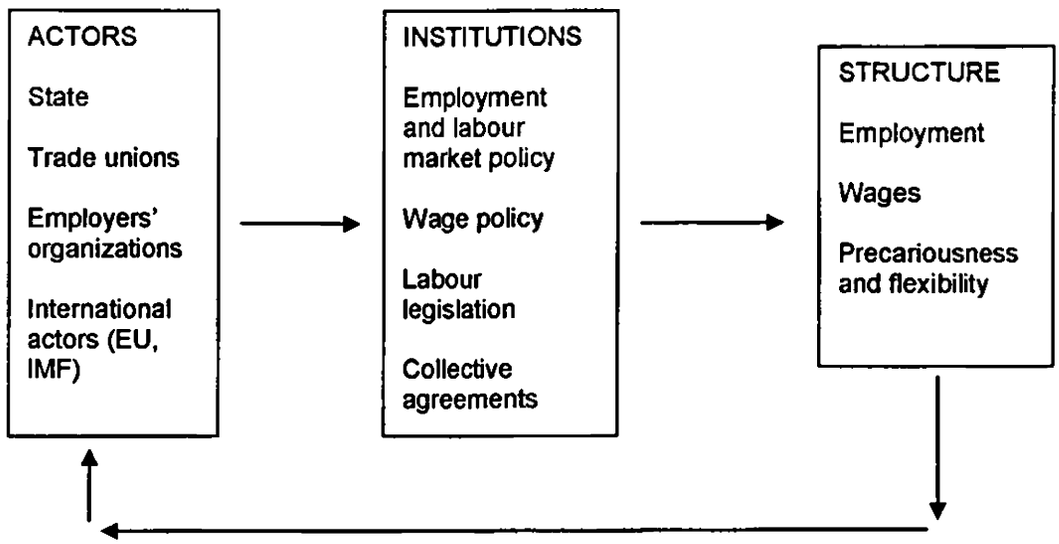
Apart from labour market institutions and actors, a labour market regime also comprises labour market structures. Actors try to influence these structures through the configuration of labour market institutions, i.e. by imposing standards or providing incentives. Also, the institutional and structural dimensions of labour market regimes give meaning to each other and can therefore not be properly understood independently. For example, low employment protection means something different in a labour market where unemployment is high than in one where it is easy to find new employment. In addition, they mutually influence each other: actors will create institutional arrangements to pursue certain types of labour market structures; at the same time, developments in these same structures provide feedback to these same actors, and may prompt them to attempt to make changes in labour market institutions.

To compare the state of the two labour markets at the start of the 21st century, in chapter 8 I will provide an analysis of labour market developments since 1989, including developments in aggregate employment and unemployment, the structure of employment, and wage developments. At the heart of this comparison are three sets of indicators:

- *Employment* (employment and unemployment rates).
- *Wages* (growth rates).
- *Precariousness and flexibility* (expressed in the incidence of the various types of standard and non-standard employment and working time patterns).

Figure 1 pictures the elements of a labour market regime as well as the interaction between them. Throughout the rest of this chapter I will further develop this figure, introducing a number of additional elements.

Figure 1: Labour market regime



1.3 Studying institutional change

The second question I want to address is how to understand the configuration of labour market institutions at a particular point in time, as well as the change they have experienced since 1989. Hence, the central box in the above outlined figure is my independent variable in the analysis. Change has been dramatic as state socialism was abandoned and capitalism embraced, and has included radical innovation of labour market institutions. In the present section I will develop the analytical model to be applied in subsequent chapters to my two cases. I will start with a brief critique of the most commonly employed models of analysis, and will then outline my own model, drawing mainly on neo-institutionalist approaches.

Post-socialist modernization theory

The analysis of societal change in the former state socialist countries has been dominated by a set of closely related approaches which one way or the other start

from the assumption that capitalism is a single order, in which differences between national institutional and structural characteristics are of little importance and bound to disappear. These approaches can possibly be characterized best as the post-socialist version of modernisation theory (Burawoy 1992; Arnason 2000). Here I will offer a brief critique of the claims and assumptions of this approach, since, given its prominent place in the study of post-socialist capitalism, it inevitable serves as a point of reference for my own analysis.[4] This also because of its important influence on the perception of some of the main actors in my two empirical cases of what would be appropriate and feasible ways of reform after 1989.

Post-socialist modernization theory centres on the idea of the inevitable, logical and relatively unproblematic transition of inferior state socialism to superior democratic capitalism. This optimistic imitation concept is voiced by the majority of CEE elites, their Western counterparts and the international financial institutions (World Bank 1996; Lipton and Sachs 1990, Åslund 2002). It follows a binary logic and see change as a transition, going from one extreme, inefficient socialist systems, to the other: efficient modern capitalism (Alvater 1998: 592). Ironically, it shares this binary 'there-is-no-alternative' logic with the early Marxist tradition, which introduced the concept of transition to indicate the inevitable process of transition to communism (Guilhot 2002). Many of its proponents have optimistically asserted that after a brief journey through the 'valley of tears' there would be a bright future for the newly capitalist countries (Barr and Harbison 1994; Sachs 1993). And, as Sachs (1993: 5) explains, it derives its optimism from '.. the fact that the endpoint is so clearly discerned'. The only possible obstacles would be political ones, in particular the exploitation of the short-term costs of the move to capitalism by populists or old communists nomenklatura to produce stalemates and non-reform.

Modern capitalism, in this view, is to be pursued through the adoption of Western political and economic structures, institutions and practices which have shown their value. To illustrate this, let's consider two quotes, one from János Kornai and the other from Jeffrey Sachs:

[4] For more extensive critiques from of variety of points of view see, among others, Burawoy 1992; Altvater 1998; Stark and Bruszt 1998; Pickles and Smith 1998; Burawoy and Verdery 1999; Večernik 1996; Amsden et al. 1994.

> It would be desirable for the structure of society to resemble in its main features the structure of the most highly developed capitalist countries. A broad stratum of independent, autonomous business people and entrepreneurs should emerge.... All this transformation in the structure of society should be coupled with the modernisation of production and the other activities of society, through the spread of up-to-date technologies and life styles (Kornai, 1995).

> Poland's goal is to be like the states of the European Community. Although there are many sub-models within Western Europe, with distinct versions of the modern welfare state, the Western European economies share a common core of capitalist institutions. It is that common core that should be the aim of the Eastern European reforms (Sachs 1993: 5).

Such views have some resemblance to Parsons' theorizing and his over-socialised view of agency (Parsons 1967, 1971). In his analysis, Western societies, first Europe (starting in the 17th century) and later, in the 20th century, the US, have shown a clear superiority over the rest of the world. This superiority is rooted in their structural characteristics, which confer on their possessors an adaptive advantage far superior to the structural potential of societies lacking it (Parsons 1967: 520). Agency is of relatively minor importance here and is expected to act out the script presented by structure. Hence, similar structure leads to similar outcomes and social and economic differences between societies depend on society-internal factors. Accordingly, less successful societies, or, in the present study, post-socialist countries, should model themselves on the 'superior' societies, that is, those with a high GDP or income per capita.

At the same time, these views support the neo-classical claim that more market means more efficiency, which then leads to more prosperity. This is so, because the main institutional features their advocates promote, those they consider to be the core institutions to be taken over, are those of the ideal-type market, claimed to be at the basis of the success of the most 'advanced' countries. Such an institutional context will then allow a decisively under-socialised agency to fulfil its mission of self-interested rational maximiser, resulting ultimately in optimal aggregate efficiency and prosperity.

Paradoxically, then, the over-socialised and under-socialised views of agency lead up to very similar prescriptions of how to shape the transition of state socialism

to capitalism. This is so because both consider the relation between structure and agency to be relatively straightforward and unproblematic, even if they do so in a completely opposite way. As I will argue below, these conceptions are extremely problematic because they ignore the continuous interaction between structure and agency we observe in the real world. What is more, they often assume a functionalist-evolutionist type convergence on a superior model, as, through a sort of 'institutional Darwinism' (Schmid and Schömann 1994: 9-10) more efficient modes of societal and economic organisation replace less efficient ones, and transhistorical progressive laws force their inherent logic on social development (Sewell 1996: 247; see also Kitschelt et al. 1999b). The assumption of ever-increasing efficiency then leads many to take the ideal-type market as the future situation towards which conversion is moving.

A specific branch of the modernizationist approach is the structuralist approach (e.g. Blanchard et al. 1991). The structuralist view focuses not only on the end point but as well on the starting point, and in particular on the economic structures and conditions in a country at the start of the post-socialist era. The strictly modernizationist version of the structuralist view argues that the starting position determines the need for reforms, derived from the extent to which it differs from the end point. This also indicates if more or less radical reforms are needed, and if, next to the 'necessary' economic reforms there is space for some social measures as well. There is also a more open-ended structuralist perspective which does not necessarily sees a predefined endpoint but rather argues that economic structures and conditions are a major explanatory factor in understanding post-socialist developments (e.g. Greskovits 2003).

Following a similar line of argumentation, it is often claimed that countries facing similar external pressures are inevitably forced to respond to such pressures in largely similar ways. Examples used here include the 1970s oil crises, the process of globalization, or, more particular to the countries central to this study, the entry into global capitalism after decades of state socialism and the demands stemming from EU accession. Again, the imitation of successful countries would then lead to similar success.

Such teleological explanations, despite their popularity, suffer from serious problems. Firstly, they see the development of societies as following a pre-established path and hence largely cancel the role of history, of contingency, and of agency. Also, they assume that the introduction of the same model into strongly different historical

contexts does not essentially affect its meaning and functioning, which, again, is highly problematic as I will show below. The implication for the analysis of change of these approaches is that this in the end boils down to determining to what extent the superior model has been imitated adequately, and what the obstacles are to proceed with further imitation.

Another problematic aspect of these views is that their 'superior' model in practice corresponds to a highly simplified representation of one or more country cases deemed to be at the vanguard of social and economic development. In the early 1990s, this concerned above all the United States, pictured as an almost exclusively market-based and deregulated society and the real-life representation of the abstract neo-classical economic model, to be imitated by the former state socialist countries.[5] Indeed, in the first half of the 1990s, many Western as well as CEE political and academic elites adhered to the Washington consensus' neo-liberal discourse of marketization through 'de-regulation' and the downsizing of the state, macro-economic stabilization, privatisation, and liberalization of prices and trade.

Later in the decade, the European Union took its turn as the central model of reference, and again a simplified representation, the *Acquis Communautaire*, is presented as the proper way to make capitalism and become like the EU countries. Only this time making capitalism is not so much about 'de-regulation' and reducing the role of the state but rather about increasing the state's regulative, administrative and planning capacity, as well as the adoption of the tens of thousands of regulations produced by Brussels (Bruszt and Stark 2003). As the authors aptly put it, 'Whereas the Washington Consensus offered recipes for getting the prices right, the prescriptions for European accession are about getting the rules right (Bruszt and Stark 2003).' Both, however, promise a relatively straightforward road to success, based on imitation.

In addition, these approaches virtually ignore the relations between societies as well as the role of international actors. Although core-periphery theories have lost much of their prominence in the last decades, there can be little doubt that the socio-economic problems that a particular society faces may at least to some extent originate in society-external factors and not only in internal factors. Such factors may include its position in the international division of labour or the extent to which

[5] See chapter 3 for a discussion on the governance of Western capitalist economies, pointing out, among other things, that this view of the US is highly oversimplified.

external actors have the power to influence internal affairs. As to the former state socialist countries, Janos (2000) forcefully argues that throughout the last two centuries, including the post-1989 period, international conditions have had a profound effect on domestic economic and institutional developments (see also Andor and Summers 1998). He points to, for example, the perception of the 'relative backwardness' characterising Central and Eastern Europe in comparison with the West, the fortunes of the region in the structurally unstable international market, as well as the international political system in which the attempts of great powers to establish their hegemony have included direct and indirect interference with institutional design and reform. Andor and Summers (1998) claim that the international financial institutions already played a powerful role in CEE during the 1980s, demanding austerity measures in exchange for loans, and that these austerity measures as well as other types of advice and pressure by Western countries aggravated the economic crisis in CEE in the 1980s and thus speeded up the bankruptcy and collapse of state socialism. After 1989, the pressure to adopt structural adjustment type of policies coming from the international financial institutions, Western governments, intellectuals, as well as the EU only became stronger. This in spite of the often spectacular lack of success of structural adjustment programmes around the globe (see also chapter 3).

Finally, there is little empirical evidence for the assumption of ever-increasing efficiency nor for that of increasing convergence. Indeed, one of the questions at the centre of the organisational sociology emerging in the 1970s and 1980s was how the observed widespread persistence of inefficient organisations can be explained (DiMaggio and Powell 1983). And, as will be discussed in more detail in chapter 3, there is now an extensive body of literature showing that there is no generalised institutional conversion taking place between western capitalist economies, that in some areas we can rather observe increasing divergence, and that large and persistent differences prevail between national models.

Hence, despite the powerful attraction of modernizationist approaches, possibly originating in their straightforwardness and simplicity, they are ridden with problematic assumptions, demonstrate a distinct ability to ignore real world developments, and, consequently, are of very limited use in reaching an understanding of the processes of change as they have been taking place in the two cases under study

here. In the next section I will come back to some of these problems, albeit sometimes in an indirect way, when developing a more fruitful analytical model.

A neo-institutionalist approach to the study of change

It seems to me that it is useful to start here by underwriting the principle of radical contingency (Sewell 1996: 263). I take this to express that there is no inherent or universal directionality to social development, that history is not efficient, that the future is not written in the 'genes' of society, and that past, present and future are products of social action. This does not mean that societies are in permanent flux, that social change is easily accomplished or that historical changes do not display regularities; rather, it implies that even the most durable trends of history can be undone by contingent, unpredictable events (Sewell 1996: 264). To some extent, the demise of state socialism in CEE serves as an example of this. While looking back from our present vantage point this may seem to have been an obvious and unavoidable event, still, shortly before it occurred it was almost impossible to imagine.

Secondly, I start from the idea that social action is constrained and enabled by the institutional context in which it takes place. Institutions reduce social complexity, make social action to some extent predictable, and make it more likely for certain courses of social development to materialize than others. In this way, they produce continuity as they tend to 'discourage' some courses of action and to 'favour' others. For example, throughout time societies may develop 'standard' answers to problems of coordination and collective action, broadly accepted as legitimate and/or effective. Crouch (1993) shows that Western European societies demonstrate remarkable continuities over longer historical periods concerning the role societal actors like the state, trade unions and employers' representatives play in society and in the way they deal with social conflict and crises. However, institutions are no autonomous and deterministic forces, they are socially constructed and exist by virtue of their continuous reproduction through social action as 'In and through their activities agents reproduce the conditions that make these activities possible (Giddens 1984: 2).' In this way, structure and agency continuously interact and reshape. Agency then not only reproduces but also transforms the institutional context in which it is located.

Accepting that there is no predefined end point towards which societies are moving and that structure and agency continuously interact with each other, forces the attention towards the question of how this interaction works and how institutional continuity and change are produced. Here I will take a neo-institutionalist approach towards these questions. Since the 1960s, neo-institutional analysis has claimed a prominent place in the social sciences. Initially, it was developed as a critique of on the one hand neo-classical theory and the rational choice school, and on the other of behaviouralist approaches, which both largely ignored institutions. Neo-institutionalism deals to a large extent with two fundamental issues (Hall and Taylor 1996): how to construe the relationship between institutions and behaviour; and how to explain the processes whereby institutions originate and change. It is however not uniform in terms of theory and method. Indeed, commentators tend to distinguish between three separate neo-institutional 'schools' with quite diverse views on the relation between institutions and individuals, as well on questions of continuity and change: rational choice institutionalism, historical institutionalism and sociological or organizational institutionalism (Hall and Taylor 1996; Immergut 1998; Aspinwall and Schneider 2000).[6] Let me briefly summarize these approaches, drawing extensively on Hall and Taylor (1996).

Rational choice institutionalism understands institutions to be formal rules, procedures or norms. It takes individuals to be rational utility maximizers with fixed preferences, who base action on calculus and for whom institutions provide a context in which they make strategic decisions. In a functionalist way, they explain the existence of institutions by the function they perform, in particular how they reduce transaction costs and solve collective action problems. Institutions are assumed to be efficient, and to show continuity because individuals are better off with than without them, and because the price of changing may be high. Institutional change would occur when they stop to perform their function efficiently and alternative institutional arrangements are more efficient.

Sociological institutionalism takes a much wider view of institutions and includes, besides formal rules, procedures or norms, also normative and cognitive frames. These provide guidance to action; action may be rational and goal-oriented, however, what is rational is not constant or given. Institutions are seen to express

[6] Campbell and Pedersen (2001) even add a fourth 'school' which they label discursive institutionalism.

shared world views and conceptions of legitimacy and social appropriateness, rather than following from efficiency or instrumentality. This may concern the group, organisational or national level, but also the transnational level, where 'conventional concepts of modernity confer a certain measure of authority on the most "developed" states and exchanges under the aegis of international regimes encourage shared understandings that carry common practices across national boundaries (Hall and Taylor 1996: 17)'. Institutions produce continuity because they get internalised, become part of the identity of individuals and groups, and because they are not easily object of individual choice. Institutional change should then originate in changes in preferences, in shared understandings, which can be triggered by a variety of factors including socio-economic crises, learning, socialisation, and the transmission of cultural practices. Change does however not take place in an institutional vacuum but in a situation where there are already institutions present, which structure the views of innovators who may borrow from existing institutional templates elsewhere.

Historical institutionalism uses both calculus and culture, and argues that not just the strategies but also the interests and goals actors pursue are shaped by the institutional context. It starts from the premise that human decisions are sticky and create a web of rules and patterns of behaviour which essentially 'regularise' human conduct in such a way that certain options, choices or preferences are not entirely viable (Aspinwall and Schneider 2000). The focus is on the ways prior institutional commitments condition further action, limit the scope of what is possible and cause agents to redefine their interests. Key to historical institutionalism is the notion that institutions structure conflict and privilege certain views and interests over others. Institutions reflect asymmetries of power and power relations are a central issue. Historical institutionalists claim that alternative institutions will generate distinctive outcomes and distinct national trajectories. Indeed, institutions are seen to be relatively persistent and one of the central features pushing historical development along a set of 'paths'. Institutional change then originates in external shocks, shifting power relations, or in the factors highlighted by the other two approaches. Historical institutionalism also has room for non-institutional elements like socio-economic development as causal forces.

What use are the different approaches proposed by these three 'schools' to explain the state of and changes in the labour market institutions of the Czech Republic and Hungary? Instead of 'taking sides' in the neo-institutionalist debate and

placing myself within one of the three 'schools', below I will consider what potential contribution their key insights can provide to my analysis. Indeed, as I will argue below, it is only by combining the various approaches that we can come to a fairly complete understanding of post-socialist institutional change.

Ideas and institutional change

Of key importance to understanding post-socialist labour market institutions are the ideas that actors hold on what is legitimate, desirable, or acceptable, and on cause and effect relationships. A growing body of research underscores the importance of ideas, i.e. normative and cognitive frames, in producing institutional continuity and change.[7] Indeed, the demise of state socialism and emergence of capitalism in CEE as such can among other things be viewed as a dramatic change in the dominant ideas on what is legitimate and what 'delivers the goods'. Let's briefly consider the relation of ideas to labour market institutions.

Normative frames point to basic norms and values, to ideas concerning the 'good society'. There are a variety of views on what legitimate and socially acceptable ways of shaping society and the economy are, how the economy is expected to contribute to social goals, and to what extent there is a collective responsibility for individual wellbeing. Such considerations constitute the basic legitimating principles underlying action. For example, while some will emphasize the central role of the individual in the development of society, others will give priority to principles like social citizenship or equality. Such principles may originate in national or group traditions and values, and will be reflected in labour law, labour market and wage policy, or collective bargaining practices. They also exist at the international level, and may be codified in international human rights, EU directives or international labour standards. An interesting example is Polanyi's (1985 [1944]) assertion that labour is not a commodity, which leads to normative considerations on how to deal with labour in a socially acceptable manner. The demise of state socialism was rooted in a rejection of some of the basic values it had come to represent, including the lack of individual freedom and the lack of democracy. These were indeed, albeit in varying ways in different countries, reflected in the way the labour

[7] For an overview of the literature in this field, see Campbell (2002). For a good discussion of the role of ideas in institutional change, see Blyth (2002).

market was institutionalized (see chapter 2). The subsequent systemic reforms were guided by a different set of ideas, and, as I will discuss in subsequent chapters, these have again been reflected in labour market institutions.

Cognitive frames concern ideas of what are valid principles and strategies to achieve socio-economic objectives. In the present context, this refers to the variety of understandings of what the sources of efficiency, productivity and prosperity are, and what the corresponding role for the different modes of governance should be. Where mainstream economics propagates the view that more market regulation leads to higher efficiency and, ultimately, to higher prosperity for all, there is a ever-increasing range of critiques on this view. These are often built on the notion that non-market institutions may well be more rational in efficiency terms than market institutions, as adequately captured in the concept of beneficial constraints (Streeck 1997). They stress that non-market institutions do not only constrain (in the negative sense) economic action and efficiency, but that they also enable certain types of action, which may result in the end in higher efficiency. Cognitive arguments may also point out that functional equivalents may exist to achieve competitiveness or flexibility (Schmid and Schömann 1994), that different types of competitive strategies or types of flexibility may require different institutional environments (Hall and Soskice 2001; Regini 2000a, 2000b), or that social policies may have important stabilizing effects on the economy. Again Polanyi is an inspiration here, since he pointed out that attempts to expand market governance to every aspect of the labour market is not only socially unacceptable but also theoretically unsustainable. Similarly, Sengenberger (1994) argues that labour standards do not only have a normative rationale but a cognitive rationale as well, since they may help to increase productivity and efficiency. For example, strict employment protection legislation may not only be considered in a normative fashion to provide fairness and basic security to employees, it may also force employers to adopt a longer-term time horizon for human resource development and encourage cooperative labour relations or internal flexibility, which may then lead to increases in overall productivity, efficiency and competitiveness (*ibid.*; Buechtemann 1993).

Normative and cognitive frames together make up the third order of Peter Hall's policy paradigm (Figure 2), '... a framework of ideas and standards that specify not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing

(Hall 1993: 279).' They set out the basic values that guide policy making concerning a particular policy field (e.g. a right to employment or not, collective or individual responsibility for obtaining employment and income), as well as ways to operationalise these (e.g. the promotion of employment growth through demand or through supply measures, income maintenance of unemployed). These may stem from ideas on social rights, as well as from ideas concerning the efficiency gains related to the stability of purchasing power or of facilitating the search for new employment.

The second order in this paradigm consists of the range of basic instruments considered to be legitimate and effective in pursuing these goals (e.g. the use of a minimum wage or of unemployment benefit schemes). The first order refers to the specific settings of instruments (e.g. the relative importance of active and passive labour market policies, the level of unemployment benefits or of the minimum wage).

Figure 2 Hall's policy paradigm

3. Normative and cognitive frames

↓ ↓

2. Basic instruments

↓ ↓

1. Settings

If we translate Hall's policy paradigm to goal of the present study, i.e. the study of the change of labour market institutions, this means that normative and cognitive frames (third order) form the basis for their considerations concerning what labour market institutions – rules and regulations – (second order) are appropriate or effective, and what the specific characteristics of these institutions should be. Third order change, i.e. changes in ideas, would then lead to second and first order change. However, first and second order change are possible even if the third order remains the same.

In addition, it seems appropriate to include the concept of fourth order change, which takes place at the systemic level, i.e. from capitalism to state socialism and from state socialism to capitalism. In principle, systemic change can then be translated

into a variety of normative and cognitive frames, which will influence the perception of actors of the existing institutions and the desire (or non-desire) to adjust these. In this study I will discuss what the ideas actors have been developing in the Czech Republic and Hungary as far as labour market institutions are concerned, for a longer historical period, but in particular for the post-1989 period. In this way, I will show that changes in normative and cognitive frames are essential factors in reaching an understanding of the development of labour market institutions over time. Indeed, changes in normative and/or cognitive frames over time have resulted in profound institutional change.

An important role in the change of ideas is played by two international dimensions of change, which have been of great significance for the way the two cases have developed since 1989, as well as before the breakdown of state socialism. One is what we can term the international ideational context, that is, the totality of available ideas, which functions as a source of templates and strategies for national actors. Some of these more than others are normatively sanctioned (DiMaggio and Powell 1983: 148) and hence more likely to be adopted by national actors, for example because they are widely accepted to be legitimate (e.g. international human rights and labour standards), or because they are interpreted as having proved their value in terms of e.g. promoting economic or employment growth.

The other is that there are a number of international actors that in one way or the other aim to promote or impose their favorite model for adoption in CEE, making use of arguments as well as positions of power. The main international actors I will consider here are the IMF and the EU, which have used their perceived legitimacy as well as their powerful position towards the CEE countries to impose projects of institutional reform that reflect their ideas.

Both these dimensions to a large extent fit DiMaggio and Powell's model of institutional isomorphism, referring to processes of institutional homogenization in which 'receiving' organizations adopt institutions through three types of mechanisms (DiMaggio and Powell 1983): (1) coercive isomorphism, (2) mimetic isomorphism, and (3) normative isomorphism. Coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations on which they are dependent and by cultural expectations in the society within which they function. For example, the pressure exerted by the EU or the IMF to adopt certain models, combined with the dependency of the candidate countries wanting to join the club or

in need of loans on these organisations, fits this definition. Mimetic isomorphism refers to uncertainty encouraging mimicking. Actors confronted with uncertainty over how to respond to a particular problem or situation may try to imitate models perceived as successful. In post-1989 CEE, politicians and policy makers have experienced enormous uncertainty over what labour market institutions to pursue and we may expect that they have engaged in mimicking to a significant extent to deal with this uncertainty. Normative isomorphism is associated with professionalisation, that is, the collective struggle of the members of an occupation to define the conditions and methods of their work as well as a cognitive base and legitimation for their professional autonomy. This is closely related to social learning and norm transmission, and could in the present case be applied to the interaction between a variety of CEE professionals and policy makers on the one hand, and their western counterparts as well as the endless stream of advisors and consultants that have flooded CEE since 1989 on the other. An interesting example of this would be the rapid emergence of western-style central banks in CEE, which, according to Johnson (2002), is to an important extent due to the intensive efforts of a transnational or epistemic community of central bankers in Western Europe and North America, mainly through active and extensive training and technical assistance efforts, and leading to a convergence in economic ideologies, basic techniques and practices, and internal organisational frameworks in CEE central banks.

A major weakness of DiMaggio and Powell's model of institutional isomorphism, however, originating both in the authors' fascination with what they perceived as increasing homogenisation of organisational features around the world, as well as in their model of action in which actors are mere followers of cultural norms or institutional rules, is that they present institutional isomorphism as a one-way and fairly mechanical process. However, as Eyal (2000: 52-53) points out, it would be a mistake to regard Central and Eastern European actors simply as recipients of Western ideas and models, subject to a simple 'diffusion' from the core to the unsuspecting periphery. Their adoption of such ideas, templates and strategies is often selective, incomplete and subject to reinterpretation, and they themselves are part and parcel of the process of *bricolage* through which ideas are assembled from elements coming from various parts of the world. For example, the revival in the late twentieth century of the discourse of civil society, originally a eighteenth century West European invention, started largely in Central European opposition circles: 'Polish,

Hungarian and Czech intellectuals ... have reinvented civil society and provided the concept with some of the essential elements one finds today in neo-liberal doctrine (Eyal 2000: 52).' Hence, the three mechanism presented by DiMaggio and Powell can all be assumed to be of some relevance to the present study, but only if considered in an interactive sense rather than in terms of a one-way transfer. This also means that diffusion does not necessarily lead to as much isomorphism and homogenisation as the authors suggest (Campbell 2002: 31) and that their expectation of ever-increasing convergence is misplaced.

Phrasing it differently, Jacoby points out three immediate difficulties concerning simple transplantation or imitation: 'the *perception* (and possible misperception) of foreign models, political disagreements about their *desirability*, and difficulties in *implementing* foreign-inspired practices and designs (Jacoby 2002: 130, emphasis in the original)'. Contradicting the convergence thesis of the isomorphists, he also underlines the often-observed fragmentation of the process of institutional transfer as well as the uncertainty of its outcome. Finally, he makes a difference between formal, at-the-surface similarities (or differences), which may lead to an over-appreciation (or under-appreciation) of the role of Western models, and real effects under the surface. For example, the transposition of the *acquis communautaire* by CEE countries striving for EU membership may be to a large extent symbolic rather than really affecting national practices.

Complementary to these observations, as will be discussed in more detail below, is the assertion that at no point in time can there be such a thing as an institutional or ideational vacuum, hence, external ideas and templates will necessarily be confronted with others that have been around for longer in the domestic context.

From the above it becomes clear that, while normative and cognitive frames are necessary elements to explain the configurations of and changes in the labour market institutions in the countries under study, they are not sufficient. In any society, multiple normative and cognitive conceptions can be assumed to co-exist simultaneously, even though not all of these will find their expression in the society's institutional set-up. Also, each given normative and cognitive frame can be the basis of multiple institutional configurations. Or: a dominant model is not an exclusive one and, as mentioned before, there is no deterministic relation between ideas and institutions in the sense that we cannot read the latter from the former. Additionally, different paradigms may co-exist within a given society and no homogeneity or

coherence has to be assumed (Crouch and Keune 2005; Keune with Kiss and Tóth 2004). For example, while post-World War II Britain was largely dominated by neo-corporatist Keynesianism, this domination was not complete. The financial sector stood outside this paradigm and followed a neo-liberal path alongside the Keynesian mainstream long before neo-liberalism established its dominance in the 1980s (Crouch and Keune 2005). Hence, we have to bring a number of other elements into the picture.

Power and interests

Competing frames as well as competing ways to operationalize them will be sustained by different actors and can be subject of mobilization and instrumentalization (Surel 2000). Hence, a dominant paradigm, as well as the ways it is operationalized, will to a greater or smaller extent be contested and can become a source of conflict, which may lead to more of less profound adaptations. Asymmetries in resources and institutional positions may allow some actors to impose their views on others, and the paradigm that is dominant at some point in time may well have the support of only a minority. The outcome of contestation and conflict will depend '...not only on the arguments of competing factions, but on their positional advantages within a broader institutional framework, on the ancillary resources they can command in the relevant conflicts, and on exogenous factors affecting the power of one set of actors to impose its paradigm over others (Hall 1993: 280)'. Indeed, in principle, ideas can impose themselves by virtue of their persuasiveness, i.e. almost independently of the power of their proponents. However, they will often depend for their influence on the institutional positions, resources or mobilization capacity of mobilizing agents. Hence, conflicts as well as shifts in power relations may lead to relative shifts in the dominance of ideas or in the reconciliations of different ideas through compromise, and hence to institutional change.

This leads us to the question of the relation between ideas and interests. Actors do not only 'play out' the normative and cognitive scripts inherent in normative and cognitive frames, but also pursue particular goals and interests as individual or collective actors. For example, while trade unions often operate within the context of a normative discourse proclaiming solidarity and social justice, they are typically also seen as representing or defending the interests of their members. The neo-corporatist

literature (Schmitter and Lehmbruch 1979; Lehmbruch and Schmitter 1982; Molina and Rhodes 2002) would argue that it largely depends on the way interest representation is structured (centralised or decentralised collective bargaining, unified or divided union movement, etc.) if they will be successful in this respect. In more broader terms, historical institutionalists often tend to focus on '... the whole range of state and societal institutions that shape how political actors define their interests and that structure their relations of power to other groups (Thelen and Steinmo 1992: 2)'. Again, institutions are seen to structure the confrontations between actors but this time confrontations concern interests instead of ideas. The underlying assumption of many (though not all) of those identifying with historical institutionalism is that action is driven by strategic actors pursuing their material interests. Obviously, this is not easily reconcilable with the above-discussed notion of normative and cognitive frames 'guiding' actors, and they are often treated as being mutually exclusive. However, when we observe processes of institution building and policy making both seem to have their merit, not so much as alternative explanations for the same processes or outcome, but rather as complementary accounts. Several attempts have been made to reconcile the two views. Surel (2000: 501), over-simplifying the issue, suggests that maximizing behaviour and the rational pursuit of objectives only takes place at the level of Hall's first order, but that the determination of these objectives is fundamentally linked to cognitive and normative frames. Hall and Taylor (1996) suggest that ideas are antecedents to instrumental action, and are mediated by power relations. And according to Fritz Scharpf:

> 'Policy, by definition, is intentional action by actors who are most interested in achieving specific outcomes. Thus, unlike in some types of sociological theory, we cannot assume that they will merely follow cultural norms or institutional rules. We also cannot assume, however, as is done in neoclassical economics or in the neo-realist theory of international relations, that the goals pursued or the interests defended are invariant across actors and across time. Rather, we know that actors respond differently to external threats, constraints and opportunities because they may differ in their intrinsic perceptions and preferences but also because their perceptions and preferences are very much shaped by the specific institutional setting within which they interact. ... Thus, at the most general level, we need a framework that conceptualises policy processes driven by the interaction of individual and corporate actors endowed with certain capabilities and specific cognitive and normative

orientations, within a given institutional setting and within a given external situation (Scharpf 1997: 36-37).'

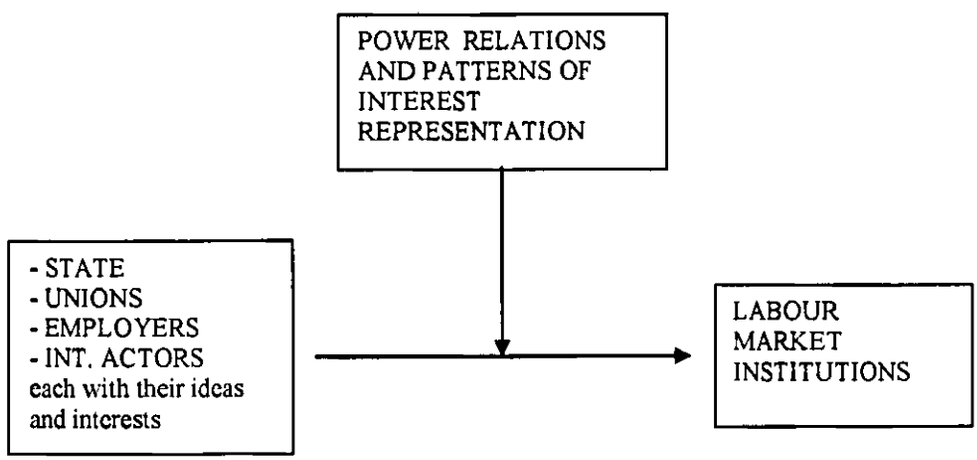
Scharpf (*ibid.*) suggests that to understand actors' preferences and action as such, it is useful to consider preferences as having four dimensions: basic self-interest, normative role orientation (normative expectations addressed to the occupants of given positions), identity (selective self-description combining specific interests and norms), and interaction orientations. To return to our example of trade unions, this allows us to see them as simultaneously (i) representing the material interests of their members; (ii) adjusting their strategies according to the institutional context in which they function; and (iii) advocating policies that they consider would further objectives related to basic union values like social justice and equality. The importance of each of them would depend on the specific issues under discussion and the specific moment in time. For example, they will differ when discussing issues of macro-level socio-economic policy or enterprise level collective bargaining. It also allows us to see the state at some point as the expression of the prevailing norms and values in a society at large, at another as the expression of the norms and values of the governing political parties, and at yet another as being captured by specific economic interests.

Distinguishing between these different dimensions of ideas and interests remains a problem however, for what some will see as value-driven, others may interpret as interest-driven. I will deal with this in a practical way in the coming chapters, not so much by deciding *a priori* how things are supposed to work, but by showing what factors underlie the development of labour market institutions. To do so, I will concentrate on the interaction between the four actors identified earlier as the main actors in the labour market regime, i.e. the state, trade unions, employers' organizations and international actors. I will discuss to what extent their interests and ideas in relation to labour market institutions have been coinciding or conflicting. Also, where ideas and interests do not coincide I will discuss to what extent the different actors have been able to influence labour market institutions. I start from the assumption that this influence is mediated by the power relations and patterns of interest representation that shape the relations between these actors (Figure 3).

Concerning power relations and patterns of interest representation, there are a variety of views on this issue in the literature, which generally single out one of the actors, or a particular configuration of actors, as being dominant in post-socialist

institution building and policy making. For example, Bruszt (1995) and Stark and Bruszt (1998) for Hungary and Leff (1997) for the Czech Republic have highlighted the étatist character of decision making on reforms, a result of attempts by the state to insulate such decision making from society. In addition, it has been argued that this dominant state has been a vehicle forwarding the ideas and interests of certain elite groups, in particular the former nomenklatura and/or managers of state enterprises. Iankova and Turner (2004), Iankova (2002; 1998) and Orenstein and Hale (2001) rather stress the emergence of various kinds of neo-corporatism in CEE, seen as an institutional solution or experiment aimed at dealing with an uncertain and potentially explosive social environment. Even though they recognise the dominance of the state and the generalized weakness of employers' organizations within the corporatist arrangements, they argue that neo-corporatist elements have been of crucial importance in smoothening out differences between the state and the social partners, and in maintaining social peace against the odds of radical social change and deep economic decline.

Figure 3: Actors, actor relations and labour market institutions



Again others suggest imperialism as the central feature of post-socialist transformation, highlighting the dominant role of international actors. For example, Andor and Summers (1998) stress that CEE is obliged to follow Western ideas and advice, if directly imposed by the EU and the IMF or only indirectly, and that national political actors and conditions are of less importance: 'Economic policy is not decided in Eastern Europe; it does not matter who wins the elections (Andor and Summers 1998:148)'.

As I will later, my hypothesis is that it is rather a combination of these elements that best reflects my empirical cases, with important differences across time and space. First, however, let's now turn to discuss one final element that I want to introduce in the analysis, that is, the role of the historical context in which the two cases are located.

History and path dependence

From the above, we can assume that there are a variety of causes for and mechanisms of institutional continuity and change, instead of single-factor theories forwarding 'constant causes' (Streeck and Thelen 2005; Thelen 2003; Campbell and Pedersen 2001). This underlines the need to address specific historical conditions and historical institutional development paths. History matters; we have to specify, however, in what way it matters. I will address this question by discussing the various ways the concept of path dependence is used in the literature. Path dependence has become one of the key concepts in neo-institutionalism, particularly for historical institutionalists. Its frequent use does however not mean that there is an agreement on what path dependence actually is all about. Definitions vary from very broad to very narrow. The broad definitions argue that path dependence is an aspect of all processes of institutional development, and take it simply to express the generally constraining and enabling nature of institutions. In essence, it is argued that institutions are 'sticky' and do not change easily, and that past institutional developments constrain the range of options available for institutional innovation and favour certain innovations over others. Hence they give some direction to future institutional development. Some examples of such broad definitions are:

> 'Rather than assuming causal independence through time, it assumes that events are normally 'path dependent', that is, that what happened at an earlier point in time will affect the possible outcomes of a sequence of events occurring at a later point in time (Sewell 1996: 262-263).'
>
> 'Path-dependency implies that an institution's prior development shapes current and future trajectories. It suggests that institutional legacies limit current possibilities or options in institutional innovation. History makes a difference. But this need not imply fatalism. For social forces could intervene

in current conjunctures and actively re-articulate them so that new trajectories become possible (Jessop 2001).

'Applied to the problem of systemic change in post-socialist economies, a path-dependency approach focuses on the duality of heritage and creation (Chavance and Magning 1997: 197).'

Institutional change becomes path dependent as actors define their preferences endogenously, based upon what has occurred in the past (Aspinwall and Schneider 2000). The concept of a 'path' is then used as a metaphore that provides an image of a development trajectory. Such paths are often characterised by institutional stability or minor, gradual change, but the path concept also helps to identify major institutional change, i.e. changes to the path.

The narrow definitions apply only to a limited range of processes of institutional development which fulfil certain strict criteria, that is, self-reinforcing sequences with a deterministic character, producing institutional continuity and set in motion by a contingent event. After such an event, sometimes labelled a critical juncture, developments are forced in the direction set by the initial event as paths produce increasing returns (sustained by their utilitarian or functionalist effects, the distribution of power, or legitimacy), which effectively produce a lock-in situation. Because of the inherent determinism, institutional change can then only result from external shocks interrupting the sequence. Among the main advocates of such narrow approaches James Mahoney and Paul Pierson:

'In this article, I argue that path dependence characterises specifically those historical sequences in which contingent events set into motion institutional patterns or event chains that have deterministic properties. The identification of path dependence therefore involves both tracing a given outcome back to a particular set of historical events, and showing how these events are themselves contingent occurrences that cannot be explained on the basis of prior historical conditions (Mahoney 2000: 507-508).'

'Recent work on path dependence has emphasised how initial institutional decisions, -- even suboptimal ones – can become self-reinforcing over time. These initial choices encourage the emergence of elaborate social and economic networks, greatly increasing the cost of adopting once-possible

alternatives and therefore inhibiting exit. Major institutional arrangements have major social consequences. Individuals make important commitments in response to these institutions. These commitments, in turn, may vastly increase the disruption caused by institutional reforms, effectively "locking in" previous decisions (Pierson 2000: 492).'

These narrow approaches, because of their bias towards continuity, their deterministic character, their insistence on external shocks as the main sources of change, and because of the specificity of the conditions they set for a process of institutional development to be considered path dependent (above all the supposed sequence of contingent event-stability-contingent event), cannot be understood as generally applicable to the (historical) analysis of institutional change. They only apply to certain peculiar types of processes and are not of use for most research on institutional development. This also because they are not easily incorporated into a comparative analysis. As far as the present study is concerned, there is no *a priori* reason to suspect that the labour market institutions here under study would follow such a strictly confined path of brief, extreme contingency where agency is apparently for some time completely under-socialised, followed by virtually complete stability and over-socialisation, where agency disappears.

The broad approaches to path dependence provide us with a much more useful image of institutional stability, of institutional change taking place within certain constraints, of how institutions give direction to innovation, and of how societies follow their own particular paths of institutional development. Also, it suggests that strategic choices shape future developments, give new directions to paths, and may produce situations resembling a lock-in. However, as argued before, I start from the assumption that lock-ins can never be complete, they have no deterministic properties and they are always to some extent contested by its discontents. Also, institutional continuity is not the same as complete stability, rather it implies that continuity and change are relative concepts: some amount of change can always be observed, while change is never a complete break with the past. Continuity and change thus becomes a matter of degree and, in most cases, change cannot easily be traced back to one particular moment in time, or to one single event. As a result, these broader versions of path dependence can accommodate both exogenously and endogenously induced change, and can accommodate moments or periods of larger (off-path) and smaller

(on-path) change. They often use the notion of events to refer to the episodes that result in off-the-path change (e.g. Sewell 1996).

Finally, these broader approaches highlight that institutional change takes place within the context of existing institutions and not in an institutional void or *tabula rasa* situation. In the debate on social change in CEE, one of the most important uses of path dependency has been to reflect exactly this, and to criticize the a-historical analysis of modernizationists.[8] For example, Stark and Bruszt (1998: 7) '...see social change not as transition from one order to another but as transformation – rearrangements, reconfigurations, and recombinations that yield new interweavings of the multiple social logics that are a modern society'. They argue that the future is to an important extent dependent on actors who search for new directions and attempt to restructure the rules of the game and the way to shape reality. However, they are constrained by the existing set of institutional resources and it is in reworking the institutional materials at hand that actors innovate. This then allows them to highlight elements of continuity in the context of major institutional change, for example, when former elites have been able to cling to their dominant position through their control of the process of privatisation of state property (*ibid.*). In their comparative analysis, they argue that different developments in country cases can to some extent be traced back to differences in the available resources, not only material or economic but above all institutional resources, e.g. the historically shaped patterns of mediation between state and society that differ qualitatively from country to country, as well as to different paths of extrication from state socialism. These then serve as a frame for understanding subsequent political and economic developments. For example, they are argued to explain differences between privatisation policies.[9]

From the above, it follows that in the present study, the analysis of labour market regimes have to be considered within the broader social, political and economic context in which these regimes are embedded. It also leads back to the earlier-raised question of convergence or divergence. As mentioned previously, it is often assumed that convergence will take place in the structural and institutional features of capitalist countries around the globe, stemming from the continuous search for efficiency or from the fact that national economies are confronted with the same

[8] The works collected in Stark and Bruszt (1998) played a pivotal role in this respect. Other examples are Hausner et al. (1995) and Chavance and Magnin (1997).
[9] For a critique of this argument, see Beyer and Wielgohs (2001).

external challenges. Following this line of argumentation, we should expect a clear-cut conversion between the Czech Republic and Hungary in the past decade or so, and we should see them converging on some global standard giving the lead to development throughout the world. What is more, we should consider the collapse of state socialism as part of this process of conversion. Our task in studying the two countries would then be not so much to examine where they are going but rather how far they have proceeded in the process of imitation.

There are however a series of arguments to reject such simplistic expectations of convergence, some of them already touched upon. One would be that of functional equivalents, posing the possibility to solve problems of efficiency and competitiveness in a variety of different ways. Another would be the constraining role of institutions that provide elements of continuity or direction to future developments and hence contradicts simple convergence expectations when starting points are substantially divergent. Also, as will be discussed in chapter 3, most comparative studies show that no wholesale convergence can be observed in capitalist societies; in some areas convergence may occur but in others divergence persists or increases. And this does not count only for capitalist societies. Also within the framework of state socialism there was a generality of experience that could be claimed only at a broad systemic level but not at the national level (Kornai 1992; Seleny 1999; Hettne 1994; Chavance and Magnin 1997). This was definitely the case for the two countries under study here as will be shown in detail in chapter 2. The two started the post-1989 process of capitalism-building from qualitatively different positions, which would contradict simplistic convergence expectations.

The two countries did both face the challenge of entering global capitalism in 1989, however, this does not mean we can model this as common pressures that demand similar responses. Common factors that are often supposed to pose largely identical demands to individual, national cases, '...are *not* in fact translated into common pressures in all national economies but rather are mediated by national institutional arrangements and refracted into divergent struggles over particular national practices (Locke and Thelen 1995: 338, emphasis in original).' Divergence thus tends to reconstitute itself because of the role of different national institutional and structural configurations, themselves an expression of a particular country's historical development.

In a similar vein, summarizing their findings of a study on convergence and divergence in western capitalist countries, Kitschelt et al. (1999b) argue that convergence of political economies on a uniquely superior model is theoretically and empirically implausible because of a variety of reasons: (i) international competition remains imperfect; (ii) the effect of economic internationalisation on domestic economies and the organisational solutions found there differ according to the prior mix of economic factors and resulting economies of scale; (iii) international competitive pressures are likely to be perceived differently by actors in different institutional settings with their own 'bounded rationality'; (iv) the pervasiveness of international economic pressures as a source of convergence is determined by the willingness and capacity of individual governments and regional regimes to liberalise; (v) national institutions (including power distribution, interests, government capacity to act and its links to sectors of the population) are not only a dependent variable forced to change in the face of international economic pressures, but also refract these same pressures in various ways, and are a critical component of the environment in which actors shape their strategies of adaptation.

For the present study this means we should not start from an expectation of convergence per se between the cases. Neither does it mean however, that convergence is impossible or unlikely. The turn to capitalism in CEE after 1989, as well as the turn from Keynesianism to neo-liberalism in the West in the 1980s can to some extent be interpreted as examples of broad processes of convergence. Rather, it calls for a specification of how convergence or divergence are produced.

1.4 A model to analyse institutional change

I started this chapter by posing two questions, the first concerning the nature of the labour market regimes that have emerging in the Czech Republic and Hungary and the extent to which these show similarities or differences, and the second concerning the factors accounting for the change of labour market institutions in the two countries. I then discussed the labour market regime concept in the second section. In the third section I provided a critique on post-socialist modernization theory and discussed the main elements of neo-institutionalism that are of use to understand the configuration of labour market institutions at a particular point in time, as well as the process of change they have been experiencing since 1989.

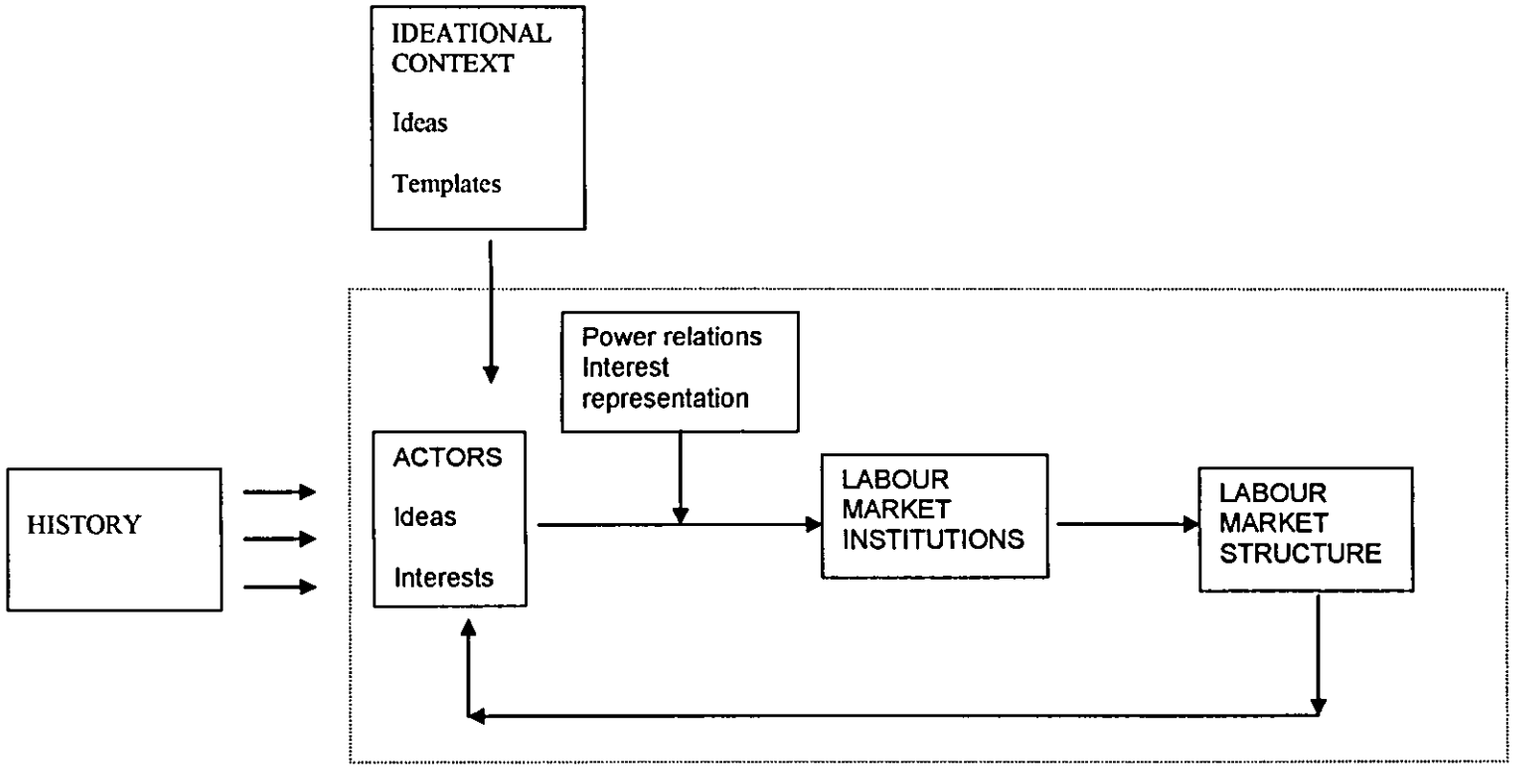
Figure 4 integrates these elements in an analytical model that will form the basis for the rest of this study. Within the dotted line it presents the relations between actors, institutions and structures. The four main actors, each with their ideas and interests aim to influence the labour market institutions. This influence is mediated by their power relations and patterns of interest representation. Through the labour market institutions, actors try to influence labour market structures. At the same time, these structures provide them with feedback on the development of the labour market and may inspire them to attempt to pursue institutional change. The box on the left of the dotted line places the cases in their historical context. The upper box accounts for the international ideational context, which can serve as a source of normative and cognitive templates to the actors in the model and can influence their own ideas. In the remainder of this study I will proceed with a comparative analysis of each of the boxes of the model. Only the ideational context, largely equal for the two cases will not be discussed in comparative terms.

As to the first question, the aim is to establish to what extent labour market regimes in the Czech Republic and Hungary are at variance with the ideal-type neo-classical market economy. This entails an analysis of the specific form the boxes within the dotted line have taken over the 1990-2002 period (see chapters 5-8).

As to the second question, this entails an analysis of the complete model, and in particular the arrows between the boxes. The labour market market institutions constitute the dependent variable in the model, and are seen as the outcome of the combined effect of the other boxes. Hence, I assume that the differences between the labour market institutions in the two country cases, as well as the way they change over time can be explained by differences between (some of) the other boxes and the way these interact with each other over time.

First of all, it crucially depends on the ideas and interests of the actors in the model, i.e. the state, unions, employers, and international actors. Agreement and differences in this respect will be highlighted throughout the discussion in the coming chapters.

Figure 4: A model for the analysis of institutional change



Secondly, it depends on these actors' institutional positions, power asymmetries, and the extent of cooperation and conflict between them. As far as the relations between these actors are concerned, we could devise three ideal types, each stressing a different type of dominant arrangement (see chapter 4 for a more detailed discussion):

(i) *étatist*, referring to a state that is insulated from the influence of both domestic and external actors, and that has the capacity to design and impose labour market institutions;

(ii) *neo-corporatist*, referring to an arrangement in which the state, trade unions and employers' organisations jointly deliberate and decide on the shape of labour market institutions on the basis of concertation;

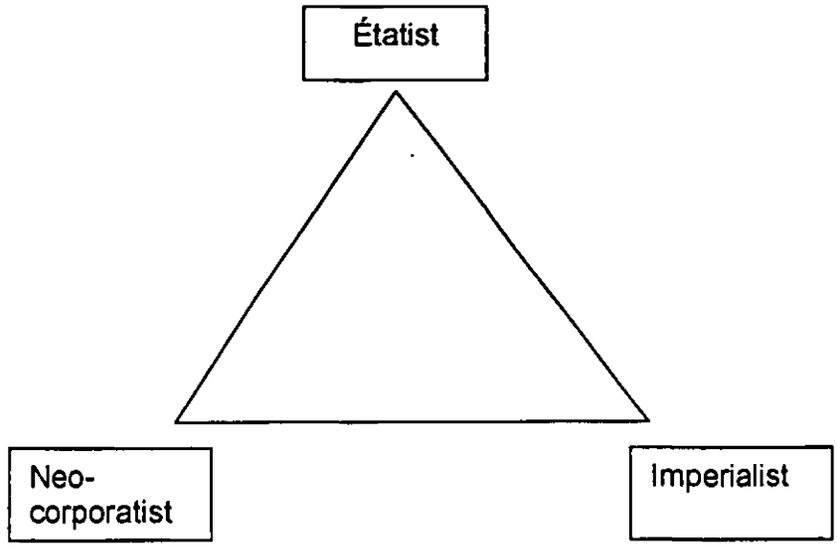
(iii) *imperialist*, referring to a situation in which foreign actors (EU, IMF) dictate the terms of labour market institutions, even if these are formally adopted by domestic actors.

Non of these three ideal type situations is expected to prevail in reality in neither of the two cases under study here. Rather, the intention is to determine how much of each can be found in each case, and how this changes over time. The three ideal types then mark a triangular space and I set out to locate the cases in this space (figure 5). To explain their location in this space, as well as changes over time, I will discuss to what extent there has been conflict and disagreement between the various actors and to what extent these have been linked to ideas or interests. In addition, I will discuss what the sources of influence of these actors have been, that is, their perceived legitimacy, institutional position and other resources.

Thirdly, these ideas, preferences and power relations build on a historical process which came to an end in 1989, which constitutes the starting situation for the analysis of the post-1989 period, and which contains many of the 'building blocks' with which post-socialist capitalism has been constructed. The comparative analysis of the historical context in the two cases presented in the next chapter will highlight a number of important similarities and differences between their labour market institutions and broader institutional configurations at the moment that they started their quest for capitalism, which, following the broad path dependency approach, are expected to be reconstituted, at least to some extent, in their post-1989 development paths and to give

some direction to these paths. In this way, the comparison between the Czech and Hungarian cases becomes a *contextualised comparison* (Locke and Thelen 1995), which takes into account such differences in starting points, the varied valences particular practices have in distinct national contexts, and thus the different meaning the creation of capitalism has for national settings. The hypothesis emerging from this argument is one of diverging historical backgrounds and starting points leading to renewed divergence between the cases in the post-1989 period.

Figure 5: three ideal types of actor relations



Fourthly, additional building blocks derive from the ideational context in which this process of creating capitalism has taken place, i.e. ideas and templates that actors may draw on or try to impose or promote. On the one hand, this is expected to have a converging effect on the two cases, as the ideational context is largely equal for the two. It may then be expected that the ideas dominating this ideational context, because of their persuasiveness on normative and/or cognitive grounds, will have an important influence on the two cases. However, as discussed above, CEE actors are not simply recipients of Western ideas and models, and the relations between the ideational context and domestic actors are selective, interactive and re-interpretative, rather than complete or unidirectional, which may reduce the influence of these external ideas and templates on

the Czech and Hungarian labour market institutions, and may also have diverging influences.

Fifthly, labour market structures (or 'outcomes'), as well as broader socio-economic developments, are expected to be key elements in understanding the development of labour market institutions. They provide the actors with information on to what extent their goals are achieved, to what extent their normative principles are reflected, to what extent their cognitive expectations concerning the relation between and the institutions and structures are fulfilled, to what extent their interests are served, etc. This enables them to reflexively interpret if there is a problem or a crisis, if there is a need for change, and it can be expected that discrepancies in this respect will result in attempts to further institutional change. This may result in minor modifications of the institutional setting, but it may result as well in profound institutional change. Indeed, as we will see in the next chapter, the socio-economic performance of state socialism was often interpreted as being disappointing and not bringing the expected improvements in living standards, which is seen by many commentators as a main cause of the eventual collapse of the system.

In the coming chapters I will discuss the different boxes of the model. To fill in these boxes I will use a variety of data sources, depending of the issues at hand. As far as the two boxes outside the dotted line in the model are concerned (i.e. the historical background of the two cases and the ideational context), I use almost exclusively secondary literature. Hence, while these two boxes play an important role in the thesis, their discussion does not include the analysis of empirical material. To discuss the actors in the model, their ideas and interests as well as their mutual relations, I scrutinised a large amount of empirical material consisting of minutes of meetings, political programmes, manifestos, memoranda, speeches, international agreements, EU reports, newspaper articles, press releases and newsletters, while also secondary literature was used. To analyze labour market institutions I collected a large amount of policy documents, legislative texts, national (tripartite) agreements, collective agreements and EU documents, while again secondary literature was used to complement the analysis. Finally, to examine labour market structures I used statistical data from national labour force surveys, Eurostat, the Household Work and Flexibility survey coordinated by Claire

Wallace, and the transition economies database of the Vienna Institute of International Economy.

As to the structure of this thesis, in chapter 2 I will provide a comparative overview of the historical background of the two cases. In chapter 3, I will discuss the international ideational context. Chapter 4, 5 and 6 will discuss the process through which labour markets in the two cases were reshaped after 1989. In chapter 4, I will discuss in more detail the concepts and questions concerning the relations between the actors as well as their ideas and interests that drive this analysis. Chapter 5 presents the comparative analysis of these issues for the first part of post-socialist transformation, when the most profound changes took place. Chapter 6 presents the second part of the post-socialist period when change was more gradual but still quite meaningful. Chapter 7 provides a detailed comparative analysis of the different sets of labour market institutions, while chapter 8 deals with the analysis of labour market structures. Chapter 9 presents the conclusion of the study.

Chapter 2. Labour market regimes in historical perspective

2.1 Introduction

This chapter presents a broad comparative-historical analysis of the development of the labour market regimes in the Czech Republic and Hungary, as well as the broader social, economic and political context in which these are embedded. The historical period covered runs from the early nineteenth century, when the traditional feudal order became challenged by liberalism and capitalism, up to 1989, which marks the end of state socialism in the two countries. Before the creation of the present-day Czech Republic, I will refer to the approximately corresponding geographical area as the Czech Lands, comprising Bohemia, Moravia and Czech Silesia, or as the Czech part of Czechoslovakia. I will trace developments in the main social, political and economic characteristics of the two cases as well as in the direction and the target – the *telos* – of the process of social change (see Streeck 2001). I will also discuss how this process has been shaped by sequences of political decisions by national and international actors, ideas and interests, the outcomes of which were far from predetermined and which could have gone in different directions than they eventually did.[10] I will focus on the development of labour market regimes, how these are embedded in the broader socio-economic and political context, and how and why certain forms of labour market institutions emerge or, alternatively, abandoned.

The present chapter aims to 'set the scene' for the subsequent chapters covering the post-1989 period and to allow for a contextualised comparison. Hence, the two cases have to be placed within the context of historically developed similarities and differences between their labour market institutions and structures, as well as broader institutional configurations. These are expected, at least to some extent, to be reconstituted in and give direction to their post-1989 development paths.

[10] This formulation is based on Wolfgang Streeck (2001), who makes a similar point in his comparative-historical analysis of Germany and Japan and how these developed into relatively coherent *Gestalten* in the period up to the 1970s. Indeed, Streeck argues that they are the result of continuous experimentation, improvisation and never-ending adjustments within the limits of changing, and ever newly discovered institutional constraints and opportunities, as well as rare moments of formative political intervention in which divergent sectoral arrangements were forcefully pulled together into a common national pattern.

This task has a longer and a shorter term dimension. The former concerns the uncovering of long-term trends in the ideas and aspirations of societal actors, in the role the actors included in the model presented in the previous chapter play in society, in the way they tackle societal conflicts and crises, as well as in structural characteristics. As argued by, for example, Crouch (1993), some of these elements may be deeply enough engrained in the respective societies to (partially) survive major societal upheavals like wars or systemic change. Hence they may present continuities that bridge the various historical periods before 1989 as well as continuing into the post-1989 period, and may be of importance to our understanding of the individual cases and of similarities and differences between the two. Among the main differences that will emerge from this chapter is historically we observe a stronger role for market governance in the Hungarian labour market than in the Czech one.

The closely-related shorter-term dimension concerns institutional and structural similarities and differences between the two cases in the period they started their quest for capitalism. While these may concern fairly recent characteristics, they may again be of importance in shaping post-1989 development paths, as demonstrated, for example, by Stark and Bruszt (1998) in their analysis of the effect of different modes of extrication on the shaping of post-socialist trajectories. And indeed, below and in the coming chapters a number of such factors will be shown to be of crucial importance in the understanding of the development of the labour market regimes in the two countries under study after 1989.

This chapter builds on the analytical model developed in chapter 1. Indeed, the applicability of the model should not be limited to the post-1989 period (nor to the particular geographical setting for that matter), even though there may be a need to incorporate different actors at different moments in time. For example, during the state socialist period, the Soviet Union was among the main international actors to be integrated into the analysis. However, because of the long period covered and space limits, I will not be able to discuss the model in detail for every time period; rather, I will build this chapter around the various elements of the model, highlighting the more salient aspects in the respective historical time periods. Indeed, treatment of the issues is necessarily brief in this chapter. I do not aspire to present a comprehensive narrative of

almost two centuries of history, but want to highlight, from a comparative perspective, the main differences between the cases as well as the main moments and projects of change.

2.2 The Habsburg Empire

Three challenges to the absolutist order

The Czech Lands and Hungary share a history of some 400 years in which they were both part of the Habsburg Empire and, between 1867 and 1918, of the Austro-Hungarian Dual Monarchy. For most of its existence, the Habsburg Empire was an feudal absolutist system, ruled by the absolute imperial power and the local power of the nobility. In the Czech lands, the latter were a small, predominantly German group closely related to the imperial power that had replaced the local elites in the seventeenth century, resulting in a 'levelling' of the local social structure (Krejčí 1990; Paul 1981). In Hungary, the much more numerous Magyar nobility (some six per cent of the population) had more political power and retained a semi-independent position within the empire. A small number of artisans and traders lived in the towns, but the peasants made up the bulk of the population of the predominantly rural and agricultural empire, most of them obliged to provide serf labour to the nobles. Serfs enjoyed only extremely limited protection against their landlords and in the seventeenth century manorial duties of six days a week were no exception. They also lacked any sort of collective or political representation.

The absolutist feudal order, and with it the serf system, became challenged by a variety of interrelated developments starting in the late eighteenth century, and leading to the eventual demise of feudalism. One was that the imperial rulers, influenced both by the ideas of the Enlightenment and by recurrent outbursts of peasant protest, introduced legal reforms extending peasants' rights, including a decree restoring to the peasants their freedom of movement, a fundamental step towards peasant emancipation (Pech 1969: 13). These reforms facilitated urbanisation as well as the commodification of labour, including the emergence of agricultural wage labour, and a rudimentary labour market with mobile labour started slowly to replace land-bound immobile labour. They

materialised however mostly in Austria and the Czech Lands and not so much in Hungary. In the latter, emancipatory tendencies were for long blocked by the semi-autonomous nobility, and serfdom remained largely intact until 1848.

Closely related to this was that, again largely limited to Austria and particularly the Czech Lands, in the late eighteenth century the first traces of capitalism and industrialisation started to appear, through the emergence of small-scale cottage industry; of landlords setting up manufactories on their estates, making use of serf labour and increasingly also wage labour; and of the 'classical' urban entrepreneur setting up small factories (Rudolph 1990: 137-143). Industrialisation was headed by the textile industry, which by 1800 employed some 650,000 workers in the Czech Lands. Industrial growth triggered the start of a local engineering industry, which together with state-led railway projects in turn stimulated the production of iron and the mining industry. It was in this period that the foundations of the Czech industrial economy of the twentieth century were laid.

It was also here that the roots of the Czech urban working class can be found. Rapid technological innovation in the mostly rural textile industry made many redundant, forcing them to move to the cities and causing a rapid growth of the landless urban working class. The latter was still small in numbers, several thousands in cities like Prague, Brno and Liberec, but workers' protest in 1830-40 against the effects of unrestrained labour markets, including low wages, high unemployment and the complete absence of protection by the state (Pech 1969: 20), already then instilled a 'fear of the working class' in other segments of the population. Workers however largely lacked organised collective representation before 1867, with the exception of the guilds and some informal workers' societies. And although some elements of workers protection were introduced in the first half of the 19th century, this was on the initiative of the state aiming to modernise the economy and defuse possible social tension and not conquered by a strong labour movement (Traxler 1982: 20-21; see also Hochman 1998: 141).

Meanwhile the Hungarian nobility clung on to their privileges and to agriculture. This also fitted the interests of the imperial power, as it ensured low-cost foodstuffs and raw materials to western industries. It were however mainly the large estates who were able to intensify production through an increasing reliance on serf labour and tariff

protection; the gentry slowly but surely impoverished. As a result, Hungary remained in a 'peripheral' position as compared to the richer, industrialising and urbanising 'core' of the empire and the continent, including the Czech Lands (Janos 1982).

Thirdly, as the most direct challenge to the absolutist order, in the first half of the nineteenth century, liberalism was posed as an alternative political project, bound to the vision of a constitution and individual and civil rights equal for all. Nineteenth century liberalism was a 'modern' movement in that it tried to change the balance of power between the king and country, church and state, aristocracy and common noblemen (Janos 1982). In the Czech Lands the liberal movement was led by the middle and lower strata of the bourgeoisie, while in Hungary it was the impoverished gentry that took the lead. As a political project, in the Czech Lands and Hungary, liberalism was first of all connected to the nationality question and both demanded a more autonomous position within the empire. Another central element was that they sought the creation of a modern state and bureaucracy. These were regarded as essential elements of economically successful nation-states, as well as potential vehicles to further their interests. Liberalism also was the political project of a male-dominated propertied class as it did want a strong role for the respective parliaments, but did not want to extent the franchise beyond propertied adult males. The economic project of liberalism was to some extent secondary to the political one until 1848 and it was certainly much more heterogeneous (Sperber 1994; Wadl 1987). Central elements of the liberal economic view were its rejection of serfdom, bound to disappear with the introduction of a constitution, that it favoured a 'modern' industrial society, exemplified by the industrialised core of Europe, over the 'traditional' agricultural one; and that the state had a key role in economic modernization.

The challenges to the absolutist order thus resulted from a combination of newly emerging ideas (Enlightenment and liberalism), and of opposition of on the one hand the peasants and the working class contesting the feudal and early industrial labour market institutions, and on the other of the lower bourgeoisie (Czech Lands) and lower nobility (Hungary) contesting the established power structures. They resulted, as elsewhere in Europe, in the 1848 liberal revolutions throughout the Empire. These were soon crushed however by the imperial army in 1849. In political terms the revolutions achieved little, with the important exception of the final abolishment of serfdom. In terms of economic

reforms, however, the empire did take on much of the ideas concerning the desirability of 'economic modernization', the assertion that the 'forced' development of large-scale industry was the central element of such a project, and that the state had to take the lead in the process. The state hence became the main historical agent of economic modernization and industrialization, and apart from land reform and the final abolishment of serfdom, reforms included the formal abolishment of the guilds in the Austrian (and Czech) part of the empire; the state-led establishment of chambers of commerce to represent the interests of entrepreneurs towards the state; the lifting of trade barriers; and state-led railway projects (Traxler 1982). There was a rapid further growth of industrial wage labour in the Czech Lands and of agricultural wage labour in Hungary. Where in the former industry expanded rapidly, in Hungary, the end of serfdom, related compensation payments and the new import-export conditions only strengthened the interest of the main landlords in agriculture and they started to reorganise their estates on a capitalist basis, combining wage labour provided by former serfs with new technologies. It was the lower nobility that often suffered more from the loss of free labour services and many of them went bankrupt. They looked to the state bureaucracy for employment. Industry emerged, but very slowly.

In this period, then, we can find the roots of some important similarities and differences between the two cases, some of which have one way or the other persisted until today. As for similarities, in both cases the breakdown of feudalism coincided with the start of the quest for economic modernisation and industrialisation, in which, as will be further discussed later, external models and external actors have played a central role. Part of this quest, of more importance in Hungary than in the Czech lands, was the emerging self-perception of lagging behind the more advanced West and the desire to catch up with its level of progress. In addition, the state emerged as the central agent of social change as well as the focus of social struggle as workers saw the state as the main instrument to strengthen workers' rights and protection. Finally, wage labour became the dominant form of work.

As far as differences are concerned, in structural terms, the Czech Lands started to industrialise much before Hungary and have had a higher share of employment in industry ever since. Related to this, it also emerged as a more egalitarian, less polarised

society with smaller incomes differences, and it has consistently had a higher per capita income than Hungary. In institutional terms, in the Czech Lands the state started to provide workers with certain rights and types of protection through labour legislation and social security measures. This started to provide workers with some sort of protection from the vagaries of the market, and started to reduce the market character of the relationship between employers and workers. In Hungary this was much less the case. This was further strengthened by the fact that in the Czech Lands some form of a labour movement started to develop, again largely absent in Hungary. And indeed, as we will see below, throughout most of the rest of history, market governance has played a much greater role in the Hungarian labour market than in the Czech labour market. Let's now turn to the subsequent time periods.

The Ausgleich

In 1867, the *Ausgleich* introduced the dual Austro-Hungarian monarchy, consisting of two constitutional parliamentary states sharing the still influential monarch and the army. Austria gradually democratized, developed a pluralist political system and progressively extended the franchise under the pressure from the working class until in 1906 universal male franchise was enacted. In 1874 the Social Democratic Workers' Party was founded. The Czechs founded their own Czechoslav Social Democratic Workers' Party in 1878, underlining the cross-cutting importance of the nationality question.

The *Ausgleich* left Hungary in the hands of the Magyar ruling class, which strengthened its hegemony over the other nationalities and assured that franchise remained a privilege of the propertied classes. Indeed, the liberals and their Liberal Party, which had a monopoly on power for most of the period until the War, continued to use the state for their own purposes (Hoensch 1988: 24; Janos 1982). The urban bourgeoisie was small and relatively unimportant in Hungary. Socialist and social democrat movements emerged after 1867, contesting the conservative-liberal order and fighting for universal suffrage as well as improvements for workers, but without success on both accounts.

Both countries, after 1867, continued for about a decade the free trade policy of the neo-absolutist era, in line with the internationally dominating trend. The state was active in building an infrastructure and in laying the foundations of universal education.[11] Free trade thinking was however undermined by the 1873 'krach' and the following economic depression, and the state became more active in protecting agriculture and industry from the uncertainties of the international economy (Traxler 1982; Janos 1982).

The Czech Lands continued to industrialise and by 1910 industrial employment reached some 35 per cent (Urban 1998: 201, Table 10.1). With the growth of the working class, the 'social question' became important. The state followed a double strategy of slowly increasing social rights to improve the situation of the working class and to prevent it from engaging in political protest, combined with restricting political rights. In the 1880s, new labour and social legislation reducing the role of the market was introduced, limiting child labour, setting limits to working time and setting up a system of labour inspection, accident insurance and health insurance. At the same time, although in 1870 the right to association was achieved after large labour protests and strikes, the liberals and conservatives, horrified by the emancipating labour movement in *Schreckbild Frankreich*, used the state to limited the political rights of the labour movement.[12] Trade unions did become an increasingly important force though. Union membership in Austria was concentrated in the economically most developed areas, including prominently the Czech lands, and increased from 31.265 in 1872 to 119.050 in 1901 to 501.094 in 1907 (Traxler 1982: 93, table 12). The labour movement had its most intimate links with the social democrats and their joined struggle focused first of all on the universal (male) franchise. This was achieved in 1906 after a three-day general strike, confirming the working class as a main agent of democratisation. The labour movement had a broad, political and socialist-étatist view of its mission (Traxler 1982; also Ješina 1987). First it argued that the deprivation of workers was indeed 'systemic', a result of the developmental logic of capitalism, and that '..die Arbeiter nur dann frei werden könnten,

[11] The latter had more success however in the Czech Lands than in Hungary: in 1880, in the Bohemian and Austrian territories some 95-99 per cent of children of school-age attended schools. In Hungary, in 1870, this was only around 50 per cent and in 1900 around 82 per cent (Berend and Ránki 1982: 24-25).
[12] See Wadl (1987: 147-157) who shows that after the *Ausgleich* the Austrian Liberals saw France as their '*Schreckbild par excellance*' while they took England as their example. See on their repression of the labour movement Ješina (1978), Krejčí (1990) and Traxler (1982).

wenn die Produktionsmittel in ihren Besitz gelangten (Ješina 1978: 16).' Secondly, it saw the state as the main obstacle, denying rights to the labour movement, and at the same time as the main instrument for improvement, to be conquered through parliamentary instead of revolutionary action. Social struggle was thus first of all a struggle for the state, more important an objective here than workplace struggles, and seen as the principle instrument to further socialist objectives and conquer labour rights. Indeed, after the 1907 elections, when they became the biggest party, the social democrats used parliament to forward a long series of new social and labour legislation, further limiting the market. Hence, the combination of the growing strength of the working class, their interest in improving their living and working conditions, and their ideas on what would be the proper way of creating a more acceptable society, resulted in important institutional changes, first in political institutions and power relations (universal franchise and increasing influence of the social democratic party), and subsequently, through state-led reform of labour market institutions.

In Hungary, reforms and economic crisis caused a growing group of landless peasants depending on wage labour to emerge; 40 per cent of peasants had no land at all while 30 per cent had a plot too small to provide for subsistence (Berend and Ránki 1985: 17). The estates however did not provide sufficient employment for them, and although industry expanded, most of it in the hands of a few foreign investors, in comparison with the Czech Lands it remained relatively insignificant: by 1910 the population depending on agriculture was still 60 per cent while the workforce in industry was 18.3 per cent (Hoensch 1988: 39). The expanding state had become an important employer offering career opportunities to the gentry. Still, with its millions of poor peasants, many of them involved in subsistence farming, without work or with extremely low wages, the land remained the central question in Hungary. The rural poor however did not manage to increase their political weight or their influence on the state and were not able to counterbalance the landowners' power.

This was reflected in labour market institutions. The burden of the 1870s economic crisis was largely placed on the politically powerless agricultural wage earners. A string of labour repressive measures was passed by parliament favouring the landowners and severely restricting the rights of agricultural workers. This culminated in

the Agricultural Labour Act of 1898. Also dubbed the Slave Law, this act virtually meant a return to serfdom and led to the depression of the standard of living of the rural wage-earning classes:

'The quintessence of labour-repressive legislation, this act explicitly outlawed agricultural strikes, made agricultural labourers criminally liable for breaches of seasonal contracts, and further provided that fugitive labourers be returned to their place of work by the gendarmerie (Janos 1982: 130-131).'

Indeed, the state took its role of a guarantor of individually concluded contracts here quite to the extreme. In industry, aiming to attract foreign investment, the government also saw 'labour peace' as a priority, but labour repression was never practised on the same scale in industry as in agriculture. What is more, like in Austria, fearing working class unrest, in the period 1890-1914, the Hungarian parliament enacted a series of measures designed to improve the condition of urban industrial workers, including laws providing for extensive medical and accident insurance and the restoration of the right to strike and to bargain collectively. Nothing new was that all this ignored the rural workers and the dual system of labour and social rights along the urban-rural divide was strengthened.

The impoverishment of the agricultural population gave rise to large-scale emigration and to the rise of agrarian socialist movements after 1890 (Borsanyi and Kende 1988; Hoensch 1988). Revolts emerged among the landless agricultural workers and they now started to organise themselves. As far as the urban working class was concerned, in 1890, effective working class organisations emerged, consisting of the Hungarian Social Democratic Party with a number of loosely affiliated trade unions, the latter rapidly growing to enlist 130.000 at the start of the century. They became more and more militant and organised a series of strikes and demonstrations in the pre-war decade. Like their Czech counterparts they did not only demand better working conditions and state protection but first and foremost wanted access to the state through universal franchise. Again they were much less successful, the Hungarian working class did not manage to match their Austrian and Czech counterparts as an agent of democratisation, and the Hungarian labour market continued to be much more market-dominated than the Czech one.

2.3 The Interwar years

Hungary

The end of World War I also meant the end of the Dual Monarchy. In Hungary, after a brief democratic revolution and the equally brief existence of the Hungarian Socialist Republic (for 133 days in 1919), in 1920 Admiral Horthy was installed as regent and the Horthy era would last until the end of World War II. Also, in June 1920 Hungary signed the Trianon peace treaty, resulting in the loss of two-thirds of its territory. The War had left Hungary in a devastating crisis, exacerbated by the disintegration of the Dual Monarchy and the newly established borders. Through the Unitary Party, the same conservatives and old-style liberals that together dominated the Dual Monarchy era would then rule the country for the next ten years.[13] The state continued to represent the ideas and the interests of the ruling elite. It promoted ideas of western modernisation and an industrial society modelled on the west, envisaged as the final stage of development (Janos 1982: 219-220), as well as privileges for the propertied and capital. The state was to play a facilitating and regulating role in this process, protecting infant industries through state credits, tariffs, subsidies, and defending private capital from right and left-wing radicalism. It also assisted the limitation of market competition through the formation of monopolies and cartels, furthering concentration and large-scale production, seen as the essence of modern industry. Agricultural exports were considered vital to provide the capital for industrial development, prompting the government to favour the large estates over the peasants, deemed a 'historical anachronism' to be sacrificed in the name of 'industrial progress' (Janos 1982: 220-233).

The state also suppressed social democrat and revolutionary ideas and severely limited the rights and influence of the working class and the rural poor. It rejected mass democracy and limited the franchise to 58 per cent of the over-24 population. The Communist party was declared illegal while the Social Democrats remained small,

[13] For detailed overviews of the political and economic system of the interwar period, see Berend and Ránki (1985: chapters 2 and 3); Romsics (1999: chapter 3); Janos (1982 chapters 4 and 5).

affected by the restricted franchise and by the limits set on its activities under the 1921 Bethlen-Peyer Pact (Hoensch 1988:111-112; Janos 1982: 234-235). Under this Pact, the government returned confiscated property to the social democrats and to the unions, released socialists from prison and gave them both freedom of speech and association. In return, social democrats agreed to help prevent politically motivated strikes, and agreed to refrain from organising agricultural workers, miners, public employees and transportation workers. It thus strengthened the urban industrial working class character of the labour movement, and left most workers without collective interest representation.

In the 1930s politics became increasingly dominated by right-wing extremism. This happened under the influence of the Great Depression as well as the influence of Germany, which had become Hungary's main trade partner and foreign investor. Competition from oversees agricultural products, falling prices and international economic crisis pushed the country deep into the Great Depression: the economy collapsed, massive unemployment reappeared and poverty mounted.

Hungarian society retained much of its traditional structure in the interwar period. In 1920, 56.7 per cent of the active population depended on agriculture, declining only slowly to 47.8 per cent in 1941; mining and manufacturing changed from 19.2 per cent to 24.0 per cent in the same period (Berend and Ránki 1985: 96, table 3.3). The state gradually decreased its role as an employer. Income disparities were enormous. Most precarious were the peasants with only little land, the farm hands and the agricultural day labourers. The urban types of employment sharing the rural misery were the precarious industrial day labourers as well as the completely unprotected domestic servants. Especially in the rural areas unemployment was high as the post-WWI crisis and the Great Depression hit agriculture even harder than industry.

The political situation, the weakness of the labour movement and general economic policy were mirrored by social and labour policy and largely continued pre-war practices. Whereas capital was more and more shielded from the market and international competition, labour, with some exceptions concerning the relatively small urban working class, was facing a labour market suffering from a chronic shortage of jobs in which atomistic workers were left to conclude individual contracts with unchecked employers. The Liberals continued to grant only limited political power to the trade unions but

granted gradual improvements in social legislation to the urban industrial working class (see Romcics 1999: 165-169; Ferge 1979: 58-60). In the late 1920s, some 80-90 per cent of the urban workers were covered by compulsory sickness and accident insurance, while benefits were gradually increased. In 1928, compulsory pension insurance for old age, disability, and widows and orphans was added to this. In 1937, the minimum wage was introduced, working time was reduced to eight hours a day and 48 hours a week, and a minimum of six day paid holidays was set. In 1938, pension provisions were finally extended to rural workers, however, they had to contribute twice as long to get the same pension rights (15 years compared to 7.5 years). In general, rural workers remained excluded from social insurance and while at least some improvements were made concerning the 'urban industrial social question', the 'rural social question' remained unattended.

Czechoslovakia

In 1918, out of an agreement between Masaryk and the allied powers, the First Czechoslovak Republic emerged, joining the Czech Lands with what today is Slovakia, previously part of greater Hungary. For the next twenty years it would maintain a parliamentary democracy with a liberal constitution and universal suffrage. It had a pluralistic and fragmented party system along both ethnic and social lines, and depended on complex coalition governments, including virtually always the dominant Agrarian Party as well as the Social Democrats. Indeed, interwar Czechoslovakia was a society based on compromise and democracy (Teichova 1988; Leff 1988; Hermann 1977). The social democrats, the largest force in the 1920 elections, saw political democracy as the only instrument to change the capitalist social order and aimed for a western-type national democratic and industrial society:

'Ihre active Unterstützung der neuen Republic basierte auf den moralisch und ideologisch begründeten Forderungen nach nationaler Unabhängigkeit und nach liberaler Demokratie westlicher Prägung. Sie gingen aus von der Einsicht in die Notwendigkeit einer sich ständig modernisierenden Gesellschaft, die sich auf weitere Industrialisierung einstellte, um ein höheres Leistungsniveau zu reichen (Luža 1978: 26).'

This decisively dampened any revolutionary tendencies in the party and much of the labour movement, and led to the split-off of the left-radical wing into the communist party, which was incorporated into the Communist International.

The new republic joined the strongly industrialised Czech Lands with predominantly agricultural Slovakia: in 1921, in the former, some 40 per cent of the workforce was employed in industry and in the latter some 17 per cent (Leff 1988: 13, table 1.1). Like Hungary, the war and the break-up of the empire, left the new national economy in a deep crisis. The government started to play an active role in re-organising and 'guiding' the economy, including land reform as well as a programme of 'nostrification' of industry and banking, forcing these not into state ownership but into Czechoslovak ownership and territory. In addition, strong linkages developed over the years between the state, agricultural interests, industrial enterprises, and banks, and the Czechoslovak interwar economy became a strongly organised and regulated capitalist economy aiming to reduce the role of the market, competition and external trade. With the support of state regulation and subsidies, monopolies and national and international cartels strengthened and industry became highly concentrated in large firms in an attempt to draw the benefits of large-scale production. The Great Depression only strengthened the tendencies towards cartellization and led to increasing autarky and tariff protection. Industry was increasingly led by heavy industry and energy: mining, electricity, metallurgy, engineering and chemicals made up 36.7 per cent of industry in 1924, up to 45.1 per cent in 1937 (Teichova 1988). The country also became an important armament exporter.

The labour movement was an important force in the First Republic, union membership was among the highest in the world. At the same time, trade unions were decentralised and segmented along nationality and party lines. Ideologically they were largely bound up with the social democrats, who gave them a voice in government, and the labour movement was not a revolutionary movement.[14] It did put its mark on interwar labour policy which took much more interest in social justice, worker emancipation and welfare than that in Hungary. This was further facilitated by the fear of the conservatives

[14] On the Czechoslovak labour movement in the interwar period, see Luža (1978); Barton and Tuček (1978); Pollert (1999).

and liberals that the poverty resulting from the war destruction as well as the developments in the Soviet Union might induce workers' unrest. In this way, joining ideas and interests, a fairly broad consensus prevailed on the desired model: a strongly regulated national industrial economy in which both capital and labour were protected from the market.

The post-war crisis as well as the Great depression led to two periods of sky-rocketing unemployment, amounting to some 450.000 in 1923 and, after a few more prosperous years, in 1929-1933 it increased to some 920.000 (Hermann 1975: 218). A broad range of reforms throughout the interwar period aimed to soften the impact of these crises, increase workers' protection and improve working conditions (Korbel 1977; Kalenská and Bělina 1998; Schronk 1991). Again, the state played a much more comprehensive role in this respect than in Hungary. Reforms included the reduction of the working day from 11 to eight hours, regulation of mass dismissals, paid holidays, the establishment of labour courts, the introduction or broadening of pensions, unemployment benefits (moving to a Ghent system in 1925), sickness insurance (covering 3.3 million by 1938), and accident insurance (covering 2 million by 1938), as well as workers' participation in the management of the enterprise through workers committees. Also, collective bargaining became more and more practised, covering close to one million workers by 1936. In addition, government programmes included food coupons, public works and others, aimed at alleviating the burden of economic crisis. This in addition to its general aim of protecting the national economy and its workers against the destructive forces of capitalism.

2.4 State socialism

The emergence of state socialism

The 1938 Munich agreement marked the end of the interwar period. After it was sacrificed by the international powers Czechoslovakia capitulated. Occupation also saw the further strengthening of the Stalin-backed communist party, which played a central role in domestic resistance and became an important political force. Hungary, on the

contrary, became a close ally of Germany and entered the war on the side of the Axis powers in 1941. It was only until 1944 that it was occupied by the Germans, who installed the Arrow Cross regime later that year. As a result of the division of the continent into two 'spheres of influence' by the main powers, both countries were liberated by the Red Army.

Czechoslovakia and Hungary, like the rest of Central and Eastern Europe, in the next few years became an integral part of the Soviet block, state socialism became institutionalised, and traditional elites were to a large extent replaced. Because of the central part played by the Red Army's occupation and Stalin's support to domestic Communist parties, it has been argued that contrary to, for example, the Soviet Union, China or Yugoslavia, the Central European countries were 'externally revolutionised' (Kornai 1992: 26). While this is largely true, it would be too simplistic to ascribe the emergence of state socialism exclusively to external imposition. The capitalist crises of the inter-war years, the long-standing limits on political freedom and participation in countries like Hungary, the suffering during the war, the often dubious role of the right in the war as well as the part played by left-wing resistance, all contributed to a radicalising call for social justice in post-war Europe. For many, especially in Central and Eastern Europe, a return to the past was an unattractive option. In Czechoslovakia this was further strengthened by the lack of trust towards the Western powers, seen to have sold the country out to Hitler under the Munich agreement Also, for decades socialist and social democratic ideas had gained ground throughout Europe as an alternative to crisis-ridden capitalism. And this concerned not only the working class but also parts of the middle class and intelligentsia, as well as large parts of the peasants, interested in land reform (Romsics 1999: 281; Kalinová 1996). Many considered the war a the result of capitalism in decay. Throughout the continent, profound social change was on the agenda, following increasing demands to increase social security, to reduce unemployment and poverty, and to strengthen democracy. A central role in this process was generally assigned to the state but a number of combinations of capitalist and socialist elements were part of the debate. In western Europe, this translated into an accelerated expansion of the capitalist welfare state under the so-called mid-century social compromise (Crouch 1999).

More radical change occurred in the Soviet sphere of influence. Among the first measures of the coalitional Provisional National Government in Hungary after the war was a drastic land reform which broke up the traditional estates and wiped out the landowners who for centuries had played a leading role in Hungarian politics and society; this was widely accepted as the righting of a historical injustice and the end of the semi-feudal pre-war system (Romsics 1999: 229). The previously illegal communist party was at that moment very small but rapidly attracted members. In the first elections, in 1945, the first with a universal franchise, it was however the Smallholders Party that got 57 per cent of the votes, with the communist party and the social democrats each receiving some 17 per cent. New, and less clean elections in 1947 confirmed the Communist Party as the largest, with 22 per cent of the votes. The Communist Party merged with the social democrats into the Hungarian Workers' Party (MDP) in 1948, led by Mátyás Rákosi. Encouraged by Moscow, it adopted the goal of the construction of a socialist system and a one-party state. In 1949, then, a new Constitution was adopted, establishing the People's Republic of Hungary.

In Czechoslovakia political parties from the right were outlawed in the immediate aftermath of the war, including the Agrarian Party. The rest formed the National Front, a government of national unity, and started a reform programme which included nationalisation of industry, banks and mines, as well as land reform and easier access to credit facilities for small enterprises. The main political force emerging from the war was the Communist Party (KSČ) which in the 1946 elections got 40.17 per cent of votes in the Czech lands and 30.37 per cent in Slovakia. Backed from a distance by Stalin, the KSČ occupied more and more crucial political portfolios and the leading positions in the trade union movement, and increased its membership to 1.3 million members by January 1948, more than all other political parties together (Korbel 1997: 223). Finally, a crisis in the National Front allowed the KSČ to take over the entire government and to effectively establish a non-democratic one-party political system.

The Stalinist example

The KSČ and MDP, closely linked to Moscow, managed to effectively set-up one-party states in both countries, and, in line with the Soviet ideology, they posed state socialism explicitly as an alternative superior to Western type capitalism. The parties embraced Marxism-Leninism as the definitive, exhaustive, and exclusive world-view, and became the self-appointed 'enlightened vanguard' of the working class, which claimed to know what was best for the people and therefore entrusted itself with the task of programming and controlling social development (Arnason 1993: 105-116).

Initially, the ruling parties took it upon themselves to implement Stalinism in their domestic contexts. In many ways the Stalinist model departed decisively from capitalism, and included a profound critique of capitalism and its social consequences. However, the two 'modernisation projects' also shared a number of elements. Both regarded industrialisation as the core of economic modernisation. Also, the mass production and scientific management principles that were at the core of developments in Western capitalism, were openly embraced. In addition, the Marxist vision of history as increasing concentration regarded large-scale production as the essence of historical development, a vision not so distant of that of the likes of Durkheim and Weber (Róna-Tas 1997). This vision originated in the observation of capitalist industrialisation during the nineteenth century and was further underlined by the tendencies towards concentration and economies of scale in pre- and immediate post-war capitalism. In addition, the state's position as the locus of social struggle as well as the main agent of economic modernization and industrialization, developed already in the previous century, was only strengthened. Moreover, although capitalism was now bluntly rejected, there remained the perception of CEE countries trailing behind the core of Europe.

Still, state socialism represented a radical departure from capitalism and from the past. It was argued to be superior to capitalism based on both normative and cognitive grounds. In normative terms, socialism was claimed to free workers from capitalist exploitation and to bring social justice, equality, social mobility and real democracy. In cognitive terms, socialism was posed as a superior system, better equipped to master the future, to foster industrialization and to intensify economic growth. The model of

economic governance was a combination of central planning, mass production and scientific management. Atomised, subordinate firms and the use of information and resources were to be controlled by a central planning commission (MrDermott 2002: 28). This was posed as the vanguard of modern industrial organisation and argued to enable maximum rationalisation of production through unprecedented economies of scale, standardisation and fragmentation of tasks, under the hierarchical command of the Party-state (*ibid.*: 31). Planning was argued to be more efficient than competition based on private property, than the anarchy of the market. Workers' productivity and discipline were expected to increase dramatically as the socialist man would emerge, conscious of the fact that he was no longer working for the exploiter but for himself, for the working class and for the good of all working people. The supposed superiority of the system was translated in continuous promises of surpassing Western levels of development, without suffering from the vices of capitalism ('Überholen ohne Einzuholen').

It was this model that served as the goal of reforms during the Stalinist period. Industrialisation and economic growth were its main immediate objectives, rather than increased productivity, employment growth or the improvement of living standards and working conditions. This led to forced industrialization but on a much larger scale than in previous historical periods, resulting in immense investment projects, in particular in heavy industry and mining, while agriculture, services and consumer goods were deemed of less importance. Nationalisation of industry and collectivisation of agriculture was completed during the 1950s, putting the state firmly in control of the economy. Production was also increasingly concentrated in large units to achieve ever-increasing economies of scale; private and small were seen as obstructing economic progress. Also, the economy was characterised by excess demand for just about everything, most importantly a hunger for investment, as well as a shortage of consumer goods, leading Kornai to label it as a shortage economy (Kornai 1980).

Although CEE countries shared Stalinism as their main example in the early 1950s, it was never fully implemented in any CEE country. As mentioned in chapter 1, there was a generality of experience that can be claimed only at a broad systemic level. Substantial diversity existed between the specific characteristics of state socialism in different space-time contexts, following, among others, from varying local interpretations

of the general model, the way it was mixed with nationalism, and the different characteristics of the local contexts in which state socialism was imported.

This counts also for the two countries here under study and for their labour market regimes, which shared many features but showed many differences as well. Róna-Tas (1997: 4) argues that the system of universal state employment, in which the employed were under control of the bosses and thus of the state, was the central institution of social order in socialism, which allowed the Party-state to exercise its power through its ownership rights rather than through coercion. Universal state employment '...was real, in the sense that it was the object of people's aspirations, fears, and rational calculations and the subject of state plans, decrees, and policies. It was the central fact of life for almost all adults living under communist rule. It was also unique to communism. No other authoritarian or totalitarian state sought to hire its entire populace (Róna-Tas 1997: 4-5).'

Control of labour by the state was intensive. In both countries, during Stalinism, national networks of labour exchanges were developed, not only to control labour fluctuations and for recruitment to solve labour shortages (formally all jobs should be handled by the exchanges), but also to identify those unwilling to work (Brus 1986: 27). Also, measures were institutionalised to limit labour turnover, including workbooks and obligatory employment records, legislation to enforce labour discipline, and limits on geographical mobility. On top of this, there was the distribution of many goods and services through the employers, the state-owned firm, including items as housing, child care, recreation, food and other consumption goods in kind, all with the function of involving all adults in state-based economic activity and of exercising power over workers and imposing enterprise-based income security in return for lifelong, passive labour; however, labour turnover remained substantial, among others because of the deficiencies in the administrative machinery and because of the growing shortage of labour (Kornai 2000; Standing 1999; Brus 1986; Baxandall 2003).

Full employment, or the eradication of unemployment, were however not integral parts of the state socialist ideology. Rather, full employment emerged over time as a by-product of the rapid industrial growth and the resulting continuous demand for labour. Labour was regarded as one of the available resources to feed industrialization and

economic growth, and its use was to be intensified through employment creation. Increased labour participation was also promoted by the fact that wage levels were low. Wages were based on a highly regulated wage system, a minimum tariff wage and the presumption that all adults were in full-time employment receiving a wage covering individual needs, while their children's needs were covered by free schooling, healthcare and childcare, coupled with family benefits and subsidised food and other basic goods.[15] Indeed, state socialism pursued the de-commodification of labour to allow that socialist man to emerge and to allow the state to keep firm control over the economy, including labour.

An additional instrument of control were trade unions, which in the late 1940s became subordinate to the Party. Since the Party was supposed to be the incarnation of the 'dictatorship of the working class', which would assure that the single, all-societal interest would be taken care of and would exclude the occurrence of labour conflicts, there was no reason anymore for organizations representing the particular interests of workers (or of employers for that matter). Unions then started to serve as transmission belts for the political leadership, conveying central economic policy (Héthy and Csuhaj 1990; Tóth 1993; Barton and Tuček 1978). They were assigned new functions, most importantly to integrate in enterprise management, to mobilise workers to fulfil production targets and to strengthen discipline; to distribute state and enterprise welfare benefits and to organize sportive and cultural programmes; and to provide career opportunities for future cadres (Tóth 1993: 88). Hence, they further assured the dominance of the Party in the workplace, they lost their function of interest representation for workers, and rather started to restrain workers' demands; while most workers were obliged to become a union member, the members were kept atomised and could not control the organization but were controlled by it (Tóth 1993: 89; also Saxonberg 2001: 43). Collective agreements did exist but in fact they became an instrument of state control and of mobilisation for the fulfilment of plan targets, while most of working conditions were pre-determined by the centre, leaving no scope for collective bargaining and even

[15] Wage grades were however only indications, since much of wages were based on piece rates, corresponding to the socialist principle 'to each according to his work'. For example, in 1955, in Czechoslovakia, 69 per cent of the wage bill in industry and 83 per cent in construction paid out as piece rates, the rest as time rates and bonuses (Brus 1986a: 30-31).

less for industrial action (Brus 1986a; Héthy and Csuhaj 1990). The assertion of interests depended mainly on the bargaining power of individual workers or smaller groups of workers (Kertesi and Sziraczki 1987: 179). Such bargaining could concern, for example, the wage category a worker would be placed in, the opportunity to perform (well-paid) overtime, the norms ruling the piece rate system, working conditions, or access to social and cultural benefits. The main sources of bargaining power of workers would generally be the threat to change job, important in particular in the periods of labour shortages, their ability to reduce productivity and slow down production, as well as their importance for the enterprise in resolving the problems stemming from the repeated crisis periods state enterprises would go through.

Hence, during the Stalinist years, a project of institutional change with broadly similar characteristics was hence implemented in the two countries, albeit within different circumstances and different outcomes. This project aimed to eliminate all types of market governance and associational governance, in favour of exclusive governance by the centralised party-state. As explained above, the state indeed started to dominate much of the economy and the labour market. This dominance was however never total and, for example, as indicated above, bargaining between individual workers or small groups of workers and their foremen or managers continued to play an important role in setting working conditions.

Also, while in both countries the ruling parties took Stalinism as their example in the late 1940s and early 1950s, national-historical conditions made the experiences of the two countries quite diverse. A good example here is the issue of full employment. After the war, Czechoslovakia never really experienced unemployment but from early on suffered from labour shortages, largely because of the fact that the German part of the population was expelled. This shortage of labour particularly affected the textile industry where 40% of the labour force had been German and which was abandoned increasingly by men moving to the expanding priority sectors (mining, metallurgy and heavy industry), often more attractive in terms of remuneration. Also, to alleviate labour shortages, there was widespread pressure to do overtime, and in 1951 a system of 'organized recruitment' for priority sectors was established, assigning jobs to soldiers completing their military service and also redeploying workers in priority occupations.

As a result of these developments, female participation rates increased rapidly, and they occupied in particular the light manufacturing industry and the lower levels of the expanding bureaucracy (Brus 1986a: 28-29; Večerník 1996). Hungary, however, experienced high unemployment in the late 1940s and in the second half of the 1950, and therefore did not take similar measures. Also the participation of women increased much slower than in Czechoslovakia and full employment was only reached by the early 1960s.

Once established, however, in both countries full employment and job security increasingly became part of the state socialist discourse and became fundamental parts of the system as such (Baxandall 2003; Róna-Tas 1997). They were more and more considered fundamental rights corresponding to the workers; unemployment and the poverty resulting from it were supposed to be capitalist diseases. Unemployment became a real taboo and the state's ability to provide full and secure employment became an important part of its legitimacy, also because individuals largely lacked alternative employment opportunities or income sources outside state employment (Baxandall 2003). Full employment did however not necessarily mean that labour was fully employed. Underemployment was widespread and many enterprises would have been able to maintain the same level of production with fewer employees. Enterprises also often hoarded labour in anticipation of future shortages.

Post-Stalinism in Czechoslovakia

Diversity between the two countries was only strengthened after Stalin died in 1953 and his regime was denounced by Krushev in 1956, lessening the pressure towards the mimicking of the Soviet system on the CEE countries. Both countries clearly developed their own state socialist variety, stemming from both a search for better economic performance as well as for improvements in the standard of living. In Czechoslovakia, already in the mid-1950s, officials from the party and from industry, spurred by declining productivity, output and export, argued that the Soviet model did not fit the country's much more advanced industrial economy.[16] Attempts were made to find new ways to

[16] It was argued that the advanced industrial structure the country had inherited from the interwar period was based on organisational and production methods focused as much on scope, flexibility and variation as

marry the country's industrial tradition with the new political reality of state control through some forms of decentralisation. The result of the respective debates between advocates of central control and total decentralisation was a compromise, the creation and strengthening of middle-level institutions, including the large industrial associations (VHJs), state bank branches, and regional and district party councils (McDermott 2002; also Smith 1998, chapter 3). Over time, not unlike the interwar period, these three developed close networks of economic co-ordination, as well as considerable autonomy from the centre (*ibid.*). Industrial investment in Czechoslovakia was concentrated in heavy industry as well as in the armament industry; especially in the latter the country consolidated its position as a major supplier to the state socialist world.

Because of its comparatively high level of development before the war and the limited deterioration of the economy in the post-war period, Czechoslovakia continued to enjoy a relatively high standard of living compared to the rest of CEE in the first post-war decade-and a half. However, in 1961-1963 the country was affected by a severe economic crisis, which, combined with the increasing unconformity of many with the limited political freedom, led to the discussion of more profound reform. This culminated in the Prague Spring of 1968, a comprehensive attempt at socialist reform, interconnecting economic reforms with changes in the political system. In January 1968 party leader Novotný was replaced by Dubček and under his leadership reforms were aimed at a more rational economy and a pluralistic political system, while preserving the principles of socialism. The five main aspects of reform were: devolution of decision making to the enterprises; differentiation of the types of control of enterprises, according to their activities and including small private businesses; the possibility for enterprises to diversify their activities; democratization of enterprise management by bringing rank-and-file representatives into the management organs through workers' councils; and a revival of trade unions as genuine defenders of the interests of employees, by making them independent from employers and the state (Brus 1986b: 212). The Soviet Union however found these reforms, in particular the political ones, as well as the outspokenness of reformers like Ota Šik unacceptable. An invasion followed in August

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they did on scale, segmentation and standardization. For a detailed discussion of this issue, see McDermott (2002: chapter 2).

and in April 1969 Dubček was ousted by Husák, and the process of 'normalisation' was initiated, even though much of the working class resented the invasion and supported the reforms. Normalisation represented a return to a very centralised regime intolerant to any deviation from the official discourse. Since then, and contrary to Hungary or Poland, for some 20 years there was no clearly identifiable reformist faction in the leadership of the country (Wolchik 1991: 49). Normalisation included amendments to the Labour Code making it possible for employers to terminate employment contracts with workers for 'infringement of the socialist order' and for the violation of labour discipline committed prior to the coming into force of the amendment (Schronk 1991: 28, also Kalenská and Bělina 1986). In addition, in a further attempt to strengthen labour discipline, normalisation put restrictions on the employment of workers changing jobs without official approval and made dismissal easier. Another amendment to the Code in 1975 again tried to strengthen labour discipline, further facilitated dismissal and limited the obligations of the employing organisation in case of termination of employment (Kalenská and Bělina 1986: 54-55). In 1971, when the country faced one of the lowest birth rates in the world, provisions for maternity leave were improved to reconcile female labour participation, required to soften the continuous labour shortages, with having children. In the period 1975-1983, also motivated by labour shortages, several government decrees facilitated the employment of pensioners with the complete or partial continuation of their pension.

The conservative leaders brought to power by the Soviets in 1968 were grudgingly accepted by the population. Like in East Germany, the Czechoslovak regime built its pragmatic acceptance on the need to support the USSR and to avoid reform; hence, it developed institutional interests in maintaining orthodoxy (Saxonberg 2001). In addition, a tacit bargain developed between government and people, which offered stable prices, high job security, full employment, free health care, as well as certain concessions to consumer needs in exchange for political peace (Leff 1997). The symbol of this was the country cottage, 80% of the population had access to one through their extended family. Here they did their own construction, bee keeping, etc., in a private context. Normalisation also largely restored the 'classic' labour market regime based on universal

state employment. Indeed, full employment and the state's responsibility in this respect continued to be at the centre of state-society relations.

Both the pragmatic legitimacy and the regime's institutional interest in conservatism collapsed when Gorbachev started to advocate his *perestroika* and *glasnost*. Jakeš, who replaced Husák in 1987, supported the Soviet reforms verbally, and introduced *přestavba*, the local variant of changes in the USSR. The Czechoslovak reforms were however much less profound and conclusive, and in practice nothing much happened. This then was the beginning of the end of the tacit bargain between government and people, and of the regime that had built its power on the fear of the evil USSR, which no longer inspired fear but rather hope (Saxonberg 2001). The conservative regime was swept away after a sudden wave of popular protest known now as the'Velvet Revolution' that took place between 17 November and 29 December 1989. In that six-week period, two broad opposition movements were created, Civic Forum (OF) in the Czech part of the country and Public Against Violence (VPN) in the Slovak part, which would dominate the first years of post-1989 politics. Also, an interim Government of National Understanding consisting of communists and (primarily) non-communists was formed, and the Federal Assembly elected Václav Havel as president and Alexander Dubček as its speaker. The Velvet Revolution also included a short series of Roundtable Talks between 26 November and 9 December, not so much to negotiate the end of the state socialist regime or to set the agenda for the future like in Hungary, but rather to simply regulate the changeover of government (Calda 1996).

Before turning to the Hungarian case one clarification is needed. The dominance of the conservative regime during the period of normalisation does not mean that there was no opposition whatsoever between 1968 and 1989 or that the Velvet Revolution was the result only of a sudden wave of protests in the context of a changing international environment. First of all, there were the dissidents, outspoken opponents of the regime. Even though they were a fairly small and isolated group of urban intellectuals and did not pose a real threat to political stability in the country, they maintained their call for democracy, justice and change over the years and played a pivotal role in the events of late 1989. Secondly, there existed a 'grey zone' between orthodoxy and resistance under state socialism, consisting of '....technical, legal and academic experts who had never

overtly challenged the regime before but who played by the rules while quietly dabbling in political and economic unorthodoxies in research institutes, publishing houses, or cultural institutions (Leff 1997: 84).' They increasingly began to question the party's doctrines and to criticise government policy in the late 1980s, even though many of them were or had been a party member. A crucial example of this 'grey zone' was the Institute for Prognosis of the Academy of Science, led by Valtr Komárek, who became Deputy Prime Minister in the transition government of late 1989. It was also the intellectual home of Václav Klaus, Minister of Finance in the same government and later Prime Minister and President of the Czech Republic. Komárek became an important critic of the state socialist regime in the late 1980s (Wolchik 1991: 46, 247). Klaus in the meantime fostered his fascination for Milton Friedman and his monetarist economics.[17] Thirdly, in the context of the 1987 reforms a number of more independent organisations appeared on the scene, representing various social groups and speaking out against the regime. In 1988 and 1989 a series of public demonstrations challenged the regime to open up space for society (*ibid.*: 43-47).

By the end of 1989, then, there were four main elite groups that would be decisive in the first years after the collapse of the state socialist regime, all with their particular roots in the previous regime and their particular ideas on the future: the dissidents, the technocrat experts, the former ruling party elite and the managerial elite. As will be discussed in later chapters, the latter often managed to cling to their positions, continuing to lead the (former) state enterprises. The Czech communist party, contrary to those in most other countries in Central and Eastern Europe, made no attempt to reform itself into a social-democratic party but continued as the communist party with a stable electorate of some 10-15 per cent, but marginalised from politics by the refusal of other parties to co-operate with them. The dissidents and the experts, as well as some of the former communists joined forces under the umbrellas of OF and VPN, united in their rejection of the state socialist system. They were far from homogeneous however. Indeed, they

[17] In an article written in September 1989, Klaus defined himself as 'a liberal of a Friedmanite type' (Klaus and Ježek 1991: 26). Also, at a ceremony where Friedman was awarded a honorary doctorate of the University of Economics in Prague, Klaus stated that 'In the communist era people like me did not have the slightest chance to dream about meeting him but I can confess that there were many spiritual links between Milton Friedman and some of us even at that time. I myself spent years studying his works as well as the works of his colleagues at the University of Chicago (Klaus 1997: 199).'

embraced almost the complete political spectrum. The umbrella movements continued to exist after they successfully brought down state socialism and became the winners of the 1990 elections. At that moment of time, contrary to the situation in Hungary, more conventional political parties were still in an embryonic state or were still to be established. As will be discussed in subsequent chapters, this very much influenced socio-economic reforms in the early 1990s in general and employment policy in particular.

Post-Stalinism in Hungary

In Hungary, a reform movement started in the year of Stalin's death within the party, which culminated in the 1956 armed uprising which was bloodily put down by the Soviet army. The Soviets then installed the Kádár regime which would last until the late 1980s. But where the Soviet-supported elite in post-1968 Czechoslovakia built its power on the fear of the Soviets, the Kádár regime rather navigated between on the one hand maintaining Soviet support, and on the other hand the 'fear of society' that haunted the ruling elite after the 1956 events, which had nullified its legitimacy and prompted it to try to avoid social conflict at any cost (see e.g. Bruszt 1993; Stark and Bruszt 1998). Also, the Hungarian economy was much more in crisis, unemployment continued to affect the labour market, and, in more general terms, the outcomes of state socialism fell far short of its promises. Hence, whereas the Kádár regime claimed there was no real room for political reform considering the threat of the Soviet Union, it was open to considering reforms and experiments in terms of economic governance, and became more sensitive to the problems of unemployment and consumption. Indeed, the Kádár regime developed its own implicit social compromise, in which popular political quiescence was exchanged for rising living standards (Baxandall 2003). In the years immediately after the uprising this was reflected in substantial wage increases, increasing social benefits, increased workers' participation in the enterprises and more attention to the production of consumer goods. Like in Czechoslovakia, the state was understood to fulfil its side of the bargain by providing full employment, which it succeeded to do from 1961 onwards.

Reforms went however much further, starting in 1968 when a broad and over time further expanding package of reforms labeled the New Economic Mechanism (NEM) began to be implemented. These reforms were unique to Hungary and constituted endogenous attempts to strengthen state socialism within a context of international constraints. The NEM largely represented the ideas and interests of managers of large enterprises and technocrats, in opposition to the apparatchiks. They aimed to strengthen their power positions as well as to increase the efficiency of the economy. The NEM was initially framed as a way to strengthen central planning and free central organs from involvement in unnecessary detail and harmonizing national and local interests through the use of economic as opposed to administrative instruments (Brus 1986b: 175). Reforms included changes in the incentive structure of enterprises to increase efficiency and reduce labour hoarding, decentralisation of decision making on many short-term issues, more attention for productivity, and the general attempt to turn enterprises into profit maximisers (Kornai 2000; Stark 1985; Brus 1986b). Also, the country started to lend more and more on the international market, among others to finance increasing consumption, and trade with non-socialist countries increased rapidly.

Contrary to Czechoslovakia, the NEM included important reforms in the country's labour market regime as well, (re-)introducing more and more elements of market governance and also some forms of associational governance. Much of employment regulation was brought down to the level of the enterprise. Enterprise managers could now conclude enterprise level collective agreements with company unions to determine local terms and conditions of employment, within the context of broad central regulations (Prugberger 1998; Kollonay 1991).[18] This opened up space for the formal differentiation of individual working conditions in function of the importance of individual or groups of workers for the enterprise and of their bargaining power. The parties to the employment contract and the contract itself received more importance and both employer and employee acquired more rights to make labour market decisions, the former in hiring and firing of employees , the latter in choosing an employer or quitting their job (Kollonay 1991; Horváth 1991; Kornai 2000). Also, employees became less dependent on the enterprises as less services and benefits were distributed through the

[18] Oganisational forms other than enterprises were excluded from this practice.

state-owned firm. Unions retained their transmission belt function, but also started to take up the representation of workers' interests (Héthy and Csuhaj 1990; Tóth 1993). Enterprise unions became more and more independent from the centralised structure of the National Council of Trade Unions (SZOT) and started to co-operate with enterprise management in its struggle for more resources from redistribution agencies at government level. The enterprise unions' double function however was a source of continuous tension (Tóth 1993: 90-93). Unions remained closer to management than to workers, also because members of the latter were often part of the leadership of the former. As a result, within the enterprises, individual bargaining prevailed and internal labour markets developed, as the reforms of the central wage system gave companies the possibility to differentiate pay according to the value of workers to the company.

In addition, since the 1960s, a second economy emerged, which gradually grew and diversified, explicitly supported by the centre. First, in an attempt to boost consumption, certain small private and semi-private activities were tolerated and the importance of household farming was acknowledged. According to Róna-Tas (1997), in the 1970s, the private sector was one of needs, a way for those earning too little in the state economy to increase their meagre earnings. Those active in the private sector did not live better than those in the state sector. Indeed, in this period the private sector reduced inequalities. This changed with the 1982 reforms which blurred the boundaries between public and private. The reforms resulted among other things from the increasingly influential position of economists, who were more concerned with rationality than morality, had less aversion to the private sector and saw it as a means of addressing the slow economy (Róna-Tas 1997). It was increasingly also recognised that the large enterprises did not always perform well. The reforms allowed and encouraged the organization of small private work partnerships, and at the same time liberalised the operating conditions and licensing of small artisans and tradesmen working alone or with their families. They relaxed the limitations on the number of people that could be employed in the private sector. They allowed for economic work partnerships (GMKs) with up to 30 members, a type of small business. They also allowed for small trade partnerships (up to 4 persons). And they introduced the company work partnerships (VGMK), associations of workers employed by the same company, as well as specialised

work partnerships in cooperatives (ISZSZCS). These allowed industrial workers to participate in the private sector. The VGMK became the most important innovation, involving more than 240,000 persons by 1987 (Table 1). They were based in the state company the members worked for, and used the same tools in the same shop as their state job, sometime during normal working hours. Most of the work in the new partnerships was part-time as people were cautious not to loose their state employment, but often people now devoted their energy mainly to their private activity and were less productive in their state job on regular hours (Róna-Tas 1997).

According again to Róna-Tas (1997), contrary to the late 1970s, in the 1980s the private sector started to lose its compensatory function and started to generate inequalities. It now allowed for higher income and increasing consumption for those active in the private sector as compared to those active only in the state sector, among others because earnings in the second economy were much higher than in the state sector. Those involved in private activities became different ones, and now included often those that were better paid in and benefiting most from the socialist economy, including the majority of party members and officials; hence, first economy assets could now be converted into second economy assets (Róna-Tas 1997).

One of the major by-products of these reform efforts, in particular the expanding and diversifying second economy, the declining importance of the main job, and the greater emphasis on enterprise profitability, was that, contrary to Czechoslovakia, in Hungary full employment lost its central place in state-society relations and the unemployment taboo became much less salient (Baxandall 2003). Workers became increasingly motivated to participate in private activities which now provided attractive income opportunities. Loosing one's state job did no longer exhaust income generating activities. Enterprise managers shifted part of their attention from labour hoarding to productivity issues. And entrepreneurship was embraced as a public virtue (Baxandall 2003). These dissimilarities in the importance of the unemployment taboo in the two countries, as well as the diverse appreciations of the role and obligations of the state concerning full employment, are among the pre-1989 legacies that have explanatory power for differences in employment policy in the immediate post-1989 period.

Table 1: Number of participants in Small Business Enterprises Filling Tax Forms at the End of the Year, 1983-87

Partnerships	1983	1987
Business partnerships (GMK)	27,647	74,793
Full-time	6,623	16,876
Part-time	18,734	51,171
Employees	2,290	6,746
Company work partnerships (VGMK)	103,864	241, 461
Full-time	1,944	3,695
Part-time	101,520	237,499
Employees	400	267
Specialised work partnerships (ISZSZCS).	42.193	86,224
Full-time	10,951	19,762
Part-time	30,533	65,413
Employees	689	1,049
Other work partnerships	6,636	9,302
Full-time	2,104	4,023
Part-time	4,267	2,863
Employees	265	2,416
Total	180,340	411,780

Source: Based on Róna-Tas 1997: 146, table 7.3.

In addition, contrary to Czechoslovakia, these reforms resulted in the stratification of the labour force: the elite workers became occupied exclusively in private enterprising; another, larger group combined state employment with second economy activities; and those who did not have any kind of marketable resources or poor bargaining positions within the public sector, remained solely active in the state economy and remained at the bottom of the newly-estabished hierarchy (Bruszt 1993: 141-142). This stratification led to strong political divisions among workers, resulting among others in a weak and divided labour movement after 1989.

The reforms implemented since 1968 were initially aimed at the strengthening of the socialist system and its performance. Indeed, until approximately the mid-1980s, most reform-minded Hungarian economists, sociologists and others, within the context of the perceived limitations set by the Kádár regime, strove for modification of the system from within. They discussed 'varieties of socialism' including a socialist 'mixed economy', socialist constitutionalism or democratic socialism, and debated about harmonising plan with market, improving redistribution or achieving independent interest representation for workers (Bozóki 1999; Eyal *et al.* 1998). Still, economic crisis continued to deepen during the 1980s. Managers and technocrats, more and more frustrated with the

difficulties of making the economy work, as well as intellectuals that increasingly rejected the political limits imposed by the regime, started to voice different strands of liberal political and economic thought, often inspired by Western examples. They distanced themselves more clearly from the party and by the end of the 1980s they openly called for systemic instead of intra-systemic reform, and for a turn to democratic capitalism. This, they argued, would bring what socialism had failed to achieve. Political freedom would be increased and capitalism would bring prosperity for all, thus finally releasing Hungary from the peripheral position it had had for centuries within Europe and opening the doors to the core of the continent.

This coincided with the fact that the power and autonomy of enterprise managers continuously grew because of further institutional changes. A series of legal modifications in the 1985-1989 period gave managers more and more control over the fate of 'their' enterprise, including the possibility to reorganise them into ltd's or joint stock companies with outside investors, to select the outside investor, to conduct the valuation of the company, etc. In practice it gave them control over the privatisation of the companies. Managers, party officials and party activists alike started to searching for ways to convert their assets for use in the private economy (Róna-Tas 1997; Bruszt 1993). Indeed, both the political and economic elites started to consider the private economy as an acceptable solution to the stagnation of state socialism as they saw possibilities to make this conversion. The institution of state employment now started to decline as those who previously guarded the institution defected: 'With these legal changes, the last bastion of universal state employment gave way. Top managers and high Party officials could readily cross the increasingly blurred boundary between the socialist and private sectors (Róna-Tas 1997: 165).'

This was possibly the main reason why those in power accepted to negotiate the end of state socialism with the increasing opposition in the Round Table Talks that took place between June and September 1989. In the late 1980s, as a result of the growing opposition and more liberal climate, a number of political formations appeared in opposition to the state-socialist regime. This again in contrast to Czechoslovakia where the Party remained virtually the only political organisation until the moment the system collapsed. Indeed, the opposition that negotiated with the Party and the so-called 'Third

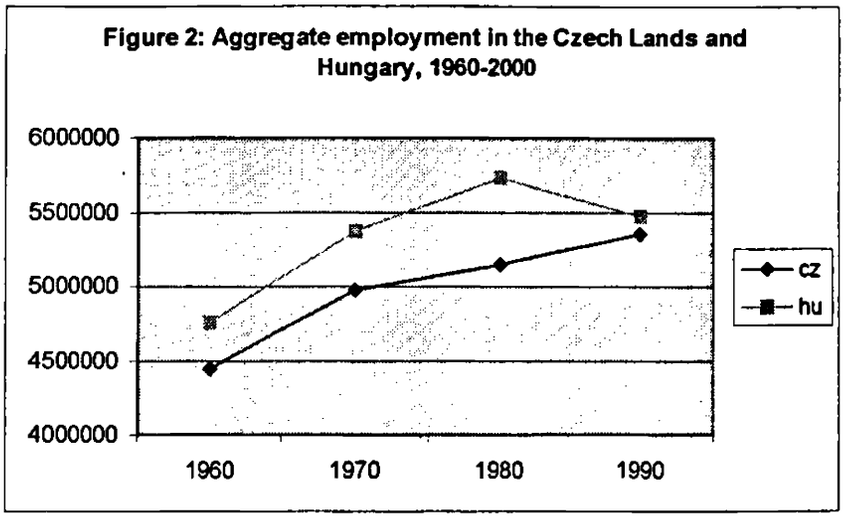
Side' (organizations like the SZOT linked to the Party) at Round Table Talks already included all major political parties that would play a significant role in post-1989 politics, apart from the Socialist Party itself, i.e. the Hungarian Democratic Forum (MDF), the Alliance of Free Democrats (SZDSZ), the Alliance of Young Democrats (FIDESZ), the Christian Democratic People's Party (KDNP), and the Independent Smallholders Party (FKGP). In addition, the in December 1988 founded Democratic League of Free Trade Unions (LIGA), which would become the major adversary of the reformed SZOT after 1989 (renamed as MSZOSZ) participated in the opposition side as an observer. The LIGA leadership was formed by a group of social-democratic intellectuals, who were committed to democratic rule and a social-market economy, which would secure the institutionalised voice of employees at the national and workplace level (Tóth 2001: 39). It was closely linked to the SZDSZ. And although it had only some ten thousand members in mid-1989, the LIGA did have an important political significance during the demise of the old regime.

Following from the above, post-1989 politics as well as industrial relations were to an important extent shaped before 1989 in Hungary, contrary to Czechoslovakia. This, as will be discussed in later chapters, has been reflected clearly in the way post-1989 capitalism in general and labour market regimes in particular were wrought in the two countries.

2.5 Labour market structures

Before turning to the conclusions, a few more words on labour market structures. The differences between Czechoslovakia and Hungary in terms of economic and employment policies were also reflected in differences in aggregate employment. In both countries this had been growing steadily until the late 1970s. While in both countries during the 1980s the economy stagnated, in Hungary this resulted in a decline in aggregate employment, while in the Czech part of Czechoslovakia employment continued to grow following the rates prevailing during the 1970s (Figure 1). As a result of the country's institutional reforms, many Hungarian enterprises reduced employment substantially in the late 1980s (Köllő 1998: 82). In Czechoslovakia the number of vacancies remained high, even

though because of the economic deceleration the growth in aggregate demand for labour slowed down in the second half of the 1980s (Nesporova 1993: 75).



As far as the sectoral structure of employment is concerned, since the 1940s important differences as well as similarities can be observed between Hungary and the Czech Lands (Table 2). In the Czech lands, industry had been the largest sector already since the 1940s, while in Hungary until the 1960s agriculture had that status, still mirroring the different positions they had historically in the Habsburg empire. In both countries, during the first decades of state socialism, industrialisation campaigns led to a rapidly increasing share of industry that reached its summit in the 1970s, after which it started to decline, in particular in Hungary. In Czechoslovakia, industry remained the largest sector throughout the state-socialist era; however, during these 45 years it did lose its former position at the forefront of industrial development and with the exception of a few smaller branches like optical instruments or specialised weaponry, Czechoslovak industry became dominated by lowly productive heavy industry. However, it was the service sector that grew fastest under state socialism in both countries, in particular in Hungary where in 1990 it was the largest sector but also in the Czech Republic where it was catching up rapidly with industry. Agriculture, then, has been in continuous decline since the 1940s. As we will

see in later chapters, agriculture has continued its decline after 1989, while the service sector has continued to increase its share.

1975	13.8	49.1	37.1	100	1970	23.2	44.3	32.5	100
1985	12.0	47.2	40.8	100	1980	19.3	41.6	39.1	100
1990	11.8	45.4	42.8	100	1990	17.5	36.1	46.4	100
Sources: CSU and KSH									

2.6 Conclusions

In the previous sections, I provided, in broad strokes, an overview of the development of the labour market regimes of the two countries in the nineteenth and twentieth centuries, as well as of the wider socio-economic and political context in which these regimes were embedded. This overview aims to allow for of a contextualised comparison of the post-1989 period in subsequent chapters. It allows me to place the two cases within the context of historically developed similarities and differences, which are then expected to be reconstituted, at least to some extent, in and to give direction to their post-1989 development paths. In this way, it is expected to improve our understanding of converging and diverging post-1989 tendencies. Both longer-term and short-term developments are of importance here.

To start with the former, there are a number of long-term similarities and differences that are of importance for the rest of this thesis. One concerns some very basic ideas on society and economy. With the rise of liberalism, the objective of societal development became progress, understood as a process of economic modernization and industrialization, and the experience of a few (western) countries became the norm to be reached, or to be surpassed. Economic modernization included the rapid emergence and spread of capitalist wage labour and the growing concentration of labour in large production sites. Catching up with the West became a recurrent theme, in particular in Hungary, seen as more 'backward' than the early industrialising Czech Lands, and this

focus on closing the gap with the 'advanced' part of the world continues to dominate the post-1989 period.

Modernization projects in the two countries took different forms over time however, including substantial changes in their *telos*.[19] They have often been a reaction to developments in the 'core' capitalist countries. These projects have at times involved a substantial amount of mimicking of western experiences. However, they have at other times explicitly tried to (more or less radically) depart from western examples and to develop alternative approaches. The most noticeable of these was of course state socialism. At the same time, the reform period under state socialism in Hungary can again be seen as a partial approximation to the western experience or as the mimicking of elements of the capitalist experience within a state socialist context. In addition, the role of external actors, be it the empire, foreign investors, the USSR, or others, has at many times been central to the way modernisation in general and labour market regimes in particular have been shaped. We will see that this continues to be the case after 1989.

Also, in both countries, the state was assigned a central role in economic modernization. The state became seen as a the central instrument to modernize as such, but also to forward collective interests. Both capital and labour considered the state a (often *the*) main vehicle through which to promote their ideals and interests, and the state became the locus of social struggle, more than, for example, workplace struggles. While the state became increasingly important during the nineteenth century and the inter-war period, it was during the era of state socialism that the state reached its most dominant position in the two countries.

In terms of the governance of labour markets, during this historical period we have seen that labour market institutions have gone through continuous changes. Also here the state has been a central player, experimenting and improvising, providing more or less protection to workers, taking a more or a less prominent role in the creation of employment, restricting or expanding market governance, and allowing trade unions to function as interest representatives or not. At the same time however, it have been political parties and interest groups that have struggled for control of the state to further their ideas and interests concerning labour market governance. This to a large extent

[19] Streeck (2001) makes the same observation in his historical analysis of Germany and Japan.

continues to be so after 1989, in particular in the case of trade unions which continue to treat the state as the prime locus of social struggle instead of, for example, workplace conflicts.

While the two countries share these broad orientations, there has been substantial divergence between the two, originating in both external and domestic factors. In this way, they have continuously produced their own varieties: varieties of empire, varieties of inter-war capitalism, and varieties of state socialism. Following in both cases the interests of the empire as well as those of local powerful actors, from early on the Czech Lands became the main industrialising part of the empire, while Hungary continued to be dominated for a long time by agriculture and by more traditional institutions. The latter country also had a larger agricultural and smaller industrial sector right up to the end of state socialism, even though the direction of sectoral developments was quite similar in the two countries since the late 1940s. As we will see later, these sectoral differences as well as the common trend have continued after 1989.

Moreover, the Austrian and Czech part of the empire gradually democratised, while the Hungarian part, dominated by powerful local elites tied to the land, did so much less. Democratization included in the Austrian-Czech part of the empire an increasingly influential labour movement and social democratic party, while both of these suffered from severe oppression in the much less democratic Hungary, where particular interest groups had captured the state. These differences only increased in the inter-war period and had important repercussions in the prevailing labour market institutions. Where the newly-created Czechoslovakia became an egalitarian social-democratic society where values like social justice, equality, worker protection and welfare became deeper and deeper entrenched, Hungary remained a polarised conservative-liberal society. In the former, both capital and labour were increasingly shielded from the uncertainties of the market, including many worker-friendly changes in labour market regulations and policies. In the latter it was capital that benefited from protection, while labour was to a much larger extent 'condemned' to the market, to the definition of labour standards through individual contracts with much more powerful employers.

State socialism emerged in both countries under the pressure of the Soviets, however, it also had local support, in particular in Czechoslovakia, as many considered a

return to pre-war capitalism unattractive. As a modernisation project, state socialism was posed as an alternative and superior way to achieve first of al industrialisation and economic growth. State control of the economy, including universal state employment, was argued to be the way to do so. The Stalinist model became the example to follow in the late 1940s, but was soon replaced by various kinds of experiments with state socialist reform. Here Hungary became the main reform example as elites sought for ways to avoid social conflict and to increase living standards. Czechoslovak elites used the pressure from the Soviet Union to legitimate their power position and to argue for the need for orthodoxy. Still, they developed their own variety of state socialism based on the VHJ's and close ties between industry, banks and various levels of state administration. These reforms however did not include substantial innovation in labour market institutions. As a result, in the latter state employment remained virtually universal and social equality remained in place, while in the former several new types of employment appeared, a process of stratification started in the 1980s and a variety of political and interest groups became articulated before the start of the Round Table Talks marking the negotiated regime change. This including all relevant post-1989 political parties as well as new trade unions independent from the SZOT. The Hungarian reforms to state socialism also confirmed its stronger orientation towards market governance, dating back to the middle of the 19th century and only briefly interrupted during the Stalinist period.

The differences between the two countries led to different modes of extrication from state socialism (Stark and Bruszt 1998) with consequences for the amount of conflict and cooperation practiced by political and industrial relations actors after 1989, with Hungary being more conflict-prone and Czechoslovakia less. Also, they constitute the basis for different approaches to employment and unemployment. While in Czechoslovakia the taboo towards unemployment was still of paramount importance in 1989, in Hungary this was much less the case. As we will see, post-1989 politicians, policy makers and industrial relations actors have indeed put much emphasis in Czechoslovakia (and later in the Czech Republic) on the avoidance of unemployment. This was much less the case in Hungary where employment and unemployment came to depend much more on the market.

Chapter 3 The international ideational context: evolution and diversity

3.1 Introduction

This chapter takes up the next box of the model presented at the end of chapter 1, that is, the international ideational context. As argued in chapter 1, this concerns the totality of ideas and templates that are externally available to domestic actors. These may be incorporated into domestic contexts and thus influence the there prevailing policy paradigms. Several mechanisms of 'diffusion' were identified, including pressure by external actors (EU, IMF) to adopt certain types of labour market institutions; mimicking of external models because of their perceived legitimacy or because of the enormous uncertainty CEE actors have been facing since 1989 about what would be proper and/or effective labour market institutions; or processes of professionalisation stemming from the interaction between Czech and Hungarian political and economic actors and their western counterparts or western advisors. However, the incorporation of external ideas and models, it was argued, is often selective, partial and re-interpretative, and is affected by the (mis-) perception of foreign models, political struggle about their desirability as well as by difficulties in implementing them.

Surely, it would be an impossible task to in effect deal with the *totality* of available ideas and templates, and indeed this is not necessary. As stressed in chapter 1, some of these are more than others sanctioned because they are widely accepted to be legitimate in normative terms or to have proven their value in cognitive terms. In this sense, in the Czech Republic and Hungary, like in most CEE countries, importance has been given to two sets of ideas. One concerns basic international standards as they are expressed in International Human Rights and International Labour Standards. The other is the ideas underlying western capitalism, that is, those prevailing in the USA and the western European countries, those promoted by the European Union, as well as those proclaimed by international organisations like the World Bank or the IMF, largely

dominated by the West. It is these ideas that, as will be shown, have dominated the debate among political and economic actors, as well as academics.[20]

The present chapter therefore will provide a brief overview of the main features of the debates concerning labour market institutions in western capitalism, as well as of some examples of converging or diverging trends in really existing western capitalism, from the late 1980s until the start of the 21st century. First however some words on international standards.

3.2 International standards

Two types of international standards can be argued to be truly basic standards in the sense that they are widely (though not by all) accepted as normative bottom lines, below which no national regulations or practices should be accepted. In the broader sense this concerns International Human Rights, outlining the basic rights of human beings. In the present study these are important only in the background. More specific to this study are the International Labour Standards (ILS) of the International Labour Organisation (ILO), of which virtually all countries in the world are a member. They specify a range of labour market-related rights such as the right to strike, the right to form workers' and employers' associations or the right to collective bargaining. They also set a series of rules, concerning, for example the maximum hours a person can work per week or concerning different elements of working conditions. ILS consist of Conventions that can be ratified by individual countries, which makes them part of their national legislation, and Recommendations, that can simply be followed.

ILS, and in particular the so-called 'fundamental ILS', are widely accepted as minimum norms concerning work, labour and the labour market. This stems on the one hand from their normative content, which aims to guarantee human working conditions, protection against misfortunes, and representation rights. On the other hand, ILS are normatively widely sanctioned because of the process through which they are elaborated.

[20] There are some examples, like Amsden et al. (1994) who stress the importance of the experience of the Asian Tigers for CEE. But the West has received almost all attention. This has been different in the democratisation literature, which has often explicitly compared political 'transition' and 'consolidation' in

They are defined through a process of international tripartite dialogue and negotiation by the tripartite members of the ILO. Hence, they reflect common understandings or agreements among or between workers and employers, as well as governments, their common values, collective will and common objectives (Sengenberger 1994: 4).

Before 1989, most CEE countries were members of the ILO. However, they did not always ratify all fundamental ILS and certainly not respected all of them. They were notorious mal-performers especially where ILS were concerned that one way or the other concerned political rights, for example freedom of association, the right to strike and the right to collective bargaining. As we will see in chapter 5, these international norms did indeed play a role in the early 1990s when the most fundamental modifications to labour legislation were made.

3.3 The demise of Keynesianism and the rise of neo-liberalism and monetarism

Since the late 1970s, in capitalist countries, there has been an ongoing and heated debate on labour market regimes, contrasting different normative and cognitive conceptions concerning what would be the most legitimate, socially acceptable and effective labour market institutions, as well as discussing a variety of instruments and the specific settings of such instruments.[21] Much of the discussion has centred around questions like what the relative importance of individual actors (employees, employers) and collective actors (state, trade unions and employers' organizations) should be in the regulation of the labour market and in the creation and safeguarding of employment; what kind of employment protection legislation, working time regulations, wage regulations, and labour market policies would 'produce' the best labour market results; and what should be the role of different levels of collective bargaining in the setting of wages and working conditions. Closely linked to this has been the question what would be desirable or acceptable labour market outcomes in terms of employment and unemployment rates, types of contract, working time patterns, wage levels, inequality, and others. These

CEE with experiences in Latin America (Schmitter and Karl 1994; Linz and Stepan 1996; Lijphart and Waisman 1996).

debates have involved, apart from national actors and academia, also international actors like the IMF, World Bank and the European Union. The latter has also increasingly taken up the role of regulator and policy maker in the labour market field, through, for example, a series of labour market related Directives and the European Employment Strategy.

The context for this debate has been a move away from Keynesianism and towards neo-liberalism during the 1980s and early 1990s, and the search for Third Ways since the mid-1990s. The rise of neo-liberalism started following the first oil crisis of the 1970s and the subsequent rising unemployment, inflation and economic stagnation in the West, which questioned the viability of Keynesian demand management (Ricca 1989; Standing 1999). Until then it had been relatively uncontroversial that the State had a central and active role in the economy, managing aggregate demand through public expenditure and investment in function of growth and employment objectives. Also, until then in many countries neo-corporatist relations prevailed between the state and the social partners.

The Keynesian approach was contested with great success by the advocates of neo-liberal economics, including international organizations like the IMF, the World Bank and the OECD, many prominent economists, and a number of western governments, spearheaded by Thatcher and Reagan. A dramatic loss of faith in the capacity of collectives to express their will through institutions other than private firms developed (Crouch et al. 1999: 8), and state intervention in the economy was increasingly deemed to be inefficient, inflationary, to 'crowd out' private investment and to decrease an economy's attractiveness to international capital (Standing 1999: 74). Neoliberal advocates started to point to the supposedly more successful adjustment experiences of countries that in the 1980s opened their economies to the global market, promoted enterprise competitiveness through the downscaling of statutory regulations, and achieved increases in export performance.

Core to the neo-liberal discourse is its reliance on neo-classical economics and its belief in the superiority of the market over other types of governance. Indeed, the ideal-type neo-classical market economy is the major theoretical inspiration for neo-liberalism.

[21] Some of the main contributions to this debate, expressing a variety of views, have been OECD 1986, 1994; Boyer 1988; Pollert 1991; Schömann *et al.* 1998; Standing 1999; Stråth 2000; Esping-Andersen and Regini 2000a; Sarfati and Bonoli 2002.

In more pragmatic and programmatic terms neo-liberalism represents a set of ideas about what actors and institutions are appropriate to make economies and labour markets approach the ideal-type market as much as possible. These include '... minimalist welfare state, taxation, and business regulation programmes; flexible labour markets and decentralised capital-labour relations unencumbered by strong unions and collective bargaining; and the absence of barriers to international capital mobility (Campbell 2001: 4).' Following this line, neo-liberalists insist on the need for general 'de-regulation' and for the state to abstain from intervention in the economy. Advocates of neo-liberalism mainly use cognitive arguments, claiming that more market equals more efficiency, which would equal more prosperity. However, they also tend to make normative claims, arguing that more market results in more personal freedom ('liberalization') as well as better chances for democracy.

The rise of neo-liberalism was accompanied by the rise of monetarism. The monestarists, led by the Chicago Boys, focused more on the macro-economic conditions which would be most beneficial for economic growth. Monetarism first of all targeted inflation, argued to be the main obstacle to economic growth and prosperity. Fighting inflation became the major task of independent central banks through the management of the exchange rate, as well as key to national and European economic policy. Monetarism's other main objective became the reduction of budget deficits. Contrary to the key role of public expenditure in regulating the economy in the Keynesian era, monetarists argue for modest and balanced budgets and against public debt.

The monetarist-neoliberal combination resulted in a policy strategy based on low inflation, austerity and marketisation. It has had an important impact on the western countries as well as on the EU, resulting, for example, in the Single European Act, the Maastricht Treaty and the Stability and Growth Pact. It also profoundly influenced the reform programmes promoted by the international financial organizations and forms the basis for their structural adjustment programmes, which globally promote a standard policy mix of stabilisation through restrictive monetary policies and budget deficit reduction, liberalisation of trade and prices, as well as privatisation of economic activity. These structural adjustment programmes were developed firstly in the 1970s for industrialised countries suffering from chronic fiscal and payment imbalances, and later

exported to a number of 'newly industrialising countries', as well as many of the poorer developing countries in Latin America or Africa.[22] After 1989, they have also actively been promoted in CEE (Clarke 1998: 10). This in spite of the fact that they rarely deliver the results promised, both in terms of promoting economic dynamism as well as in increasing the demand for labour or the quality of employment (van der Hoeven and Taylor 2000).

Still, despite a broad diffusion of the neo-liberal discourse, very few really existing states are neo-liberal states. While there has been a clear move away from Keynesian-type demand management and towards monetarism-neo-liberalism, states have not withdraw from the economy and nor have markets become all-encompassing. To a varying degree, in all western countries, a variety of forms of supply management are practiced, where the state takes it upon itself to assure a country's competitiveness on the global market, to create an environment favourable to the competitive supply of goods and services, and to strengthen its attractiveness to transnational capital. Hence, such states, instead of relying solely on self-regulating markets, to varying extents perform the role of a 'competition state' or what one might call a post-Fordist 'Schumpeterian workfare state' (Jessop 1994: 103). Apart from the state, as will be discussed in more detail below, also other collective actors play a role in all western economies, their importance again differing from country to country.

3.3 Neo-liberalism, labour markets and diversity

Also where labour market institutions are concerned, in the late 1980s and early 1990s, neo-liberals started to call for 'deregulation', the removal of 'rigidities', the lowering of social and unemployment benefits and tightening of eligibility criteria, widening wage differentials, and increased flexibility, and thus for an increasing role of the market in the regulation of labour markets.[23] This would lower labour costs, allow economic organizations to become more flexible in their use of labour, enable them to be competitive in the global economy, motivate the unemployed to accept any available job,

[22] For an overview of the history of structural adjustment programmes see van der Hoeven and van der Geest (1999).

[23] One of the principle advocates of this view has been the OECD's Jobs Study (OECD 1994). For a critique of the Jobs Study, see Crouch (1998) and Crouch, Finegold and Sako (1999: chapter 2).

and stimulate job creation. In this view, ideally, the role of the state in the labour market should be restricted to the guaranteeing of the freedom of contract between self-interested and rational individual labour market actors. This ideal type image of a labour market thus favours a single institutional logic, that of the neo-classical market, where commodities, including labour, are exchanged through monetized exchange by formally free and rational buyers and sellers (cf Jessop 2002: 454-455). The neo-liberal view assumes a trade-off between economic efficiency on the one hand, and restrictions on individual action, social protection and social justice on the other. As a consequence, it does not look favourable upon a role for employment policy, legislation or collective bargaining in, for example, employment creation, employee protection, wage regulation, or the regulation of working time. This would negatively affect flexibility and thus aggregate employment. Also, it considers that virtually any type of employment is a valid alternative to unemployment, even if it provides only minimal security, wages or working conditions. In addition, it represents an abandonment of the goal of full employment.

Flexibility is a core concept in this view. The neo-liberal vision paints a picture of a 'new' labour market where 'traditional', open-ended, full time employment is being replaced by unstable, flexible forms of employment (part-time jobs, short-term jobs, agency work, etc.), where employees need to constantly adapt to changing circumstances through lifelong learning, and where individuals need to strengthen their employability and show a high level of preparedness for change, including frequent internal and external job changes (Auer and Cazes 2002: 91). This includes the spread of flexible working time arrangements as well as of so-called non-standard employment.[24]

In the second half of the 1990s, in particular in the countries of the European Union, worries about the dominance of the neo-liberal project and the negative effects of market expansion began to be voiced. One of the key issues became the fear of a so-called 'race to the bottom', in which nation states would progressively downscale the state's responsibility to assure employment, employment protection, collective bargaining, unemployment benefits or working time regulations, in the name of global competitiveness. This coincided with the electoral victories of social democratic parties

[24] Non-standard employment is defined by what it is not: open-ended, contract-based, full-time employment. However, this does not mean it necessarily concerns new types of employment. For example, in many societies self-employment belong to the traditional types of employment.

in many EU countries in the early 1990s and attempts to find 'Third Ways'. These resurgent social democrats to a large extent embraced the market, however, they called for more decisive market correction, resulting, among other things, in the return on the agenda of the goal of full employment and the resurgence of corporatism and social pacts in many EU countries (see e.g. Hemerijck 2003; Fajertag and Pochet 2000). The drive for deregulation has thus been accompanied by certain tendencies towards re-regulation and a strengthening of the role of the social partners.

Apart from events at the national level, and in spite of its economic policy aimed at increased market coordination and competition, an actor of some importance for processes of re-regulation as well as the strengthening of the position of social partners has been the EU. The EU argues that, next to its economic model, the countries of the EU share basic values like social citizenship, social rights or equal social worth. Hemerijck (2003: 10-11) suggests that these values are at the heart of the so-called European Social Model and set Europe apart from the more market-oriented United States. Hence, through a variety of instruments and mechanisms, the European Commission and other European actors have tried to translate these values to some extent into EU Directives and other instruments like the European Social Dialogue, the European Employment Strategy (EES) and the Open Method of Coordination (OMC) on employment, pensions, social exclusion and others.

However, as is evident from the continued strong diversity between EU member states, EU Directives and the other instruments do not impose a European consensus on labour market issues. Indeed, most competences in the labour and social field remain firmly at the level of the nation state. The Directives deal with a number of important issues like the freedom of movement for workers and the portability of social security rights across borders; some areas of health and safety; equal treatment of men and women; some elements of working hour regulations; workers' rights in case of collective redundancy or transfer of undertaking; part-time employment; stress at work; and others.[25] However, they do not impose anything close to a comprehensive model on the member states (Keune 2006). This influence is much more advanced in the field of economic regulations, where convergence is much stronger. It may well be that through

[25] For a listing, see: http://europa.eu.int/eur-lex/lex/en/repert/index_05.htm.

economic regulations the EU also exercises its main (indirect) influence on the labour markets of the member states.

The other instruments like the European Social Dialogue, the OMC's and the EES are essentially of a voluntaristic character and hence do not impose regulations on the member states either. However, they do have importance in terms of agenda setting and imposing certain discourses. This is especially the case where the EES is concerned, including its focus on the goal of full employment. Still, the policy solutions promoted by the EES are clearly market-oriented, with a Schumpeterian flavour. They focus, among others, on facilitating job search, training of the unemployed, the promotion of labour mobility, decentralisation of wage setting, and measures aimed at improving the external environment where firms operate, in particular in high unemployment regions.

In spite of the strength of the neo-liberal rhetoric, not even its main advocates could imagine a labour market co-ordinated exclusively through market mechanisms. In practice, neo-liberalism rather refers to an economic and political project which calls for a variety of measures that would increase the weight of market exchanges in the economy and the labour market. Programmatic objectives include, among others, limited dismissal protection, individualization of wage contracting, decentralization of collective bargaining, or activation policies instead of a right to unemployment benefits. And while neo-liberal arguments have undoubtedly had a profound influence on institutional and policy change in the West, as well as in many other regions around the world, no 'really existing' labour market comes close to the ideal type. Even in the USA, often presented as the archetypal example of a market economy, despite the 'neo-liberal offensive against labour (Thelen 2001: 92)', trade unions in some sectors play an important role in the definition of working conditions at the enterprise level, legislation puts certain boundaries on the contracts concluded between employers and employees, the state is a noticeable employer, government policy provides tax and other incentives for the private provision of social protection, internal labour markets exist, and companies use a variety of employee involvement schemes (e.g. Dobbin 2002; Weir 1992; Thelen 2001).

Additionally, the rise of neoliberalism has not led to a major convergence between western capitalist countries. In terms of labour market policies, regulations and outcomes, this can easily be illustrated by a few examples. For example, as far as employment

protection regulations are concerned, on a scale from 0-6 (0 being extremely flexible regulations, 6 extremely strict regulations), the UK and the US score around 0.5, while Italy, Japan, Norway and Portugal score 4 or higher (OECD 1999). In the case of the coverage of unemployment benefits, the proportion of unemployed receiving benefits varies from below 10 per cent in Italy and Greece, to over 80 per cent in Belgium and Sweden (Gallie and Paugam 2000: 8, Table 1.3). Concerning the coverage of collective bargaining, as can be seen in Table 1, coverage rates vary from over 90 per cent in Austria, France Belgium and Sweden, to 15-36 per cent in the UK, Japan and USA.

Table 1. Collective bargaining coverage, Europe, Japan and USA

Country	Coverage
Austria	98%
France	90%-95%
Belgium	90%+
Sweden	90%+
Finland	90%
Italy	90%
Netherlands	88%
Portugal	87%
Denmark	83%
Spain	81%
Germany	67%
Luxembourg	58%
UK	36%
Japan	21%
USA	15%

Source: European Industrial Relations Observatory On-line: *Industrial Relations in the EU, Japan and USA, 2001.* http://www.eiro.eurofound.ie/2002/12/feature/TN0212101F.html

A look at the incidence of non-standard employment in the European Union confirms the persistence of diversity in terms of labour market structure. As a percentage of total employment, the share of self-employment ranges from 5.6 per cent in Sweden to 44.0 per cent in Greece, that of part-time employment from 4.3 per cent in Greece to 41.1 per cent in the Netherlands, an that of fixed-term employment from 3.8 per cent in Ireland to 26.7 per cent in Spain; the total share of these three types of non-standard employment varies from 28.1 per cent in France to 67.3 per cent in the Netherlands (European Commission 2001). In terms of working time patterns, in the EU, the percentage of the employed who work regular hours varies from 75 per cent in Austria to 47 per cent in Greece, the percentage of the employed involved in shift work varies from 6 per cent in

Portugal to 19 per cent in Finland, and the percentage with irregular working hours varies from 13 per cent in Spain to 39 per cent in Greece.[26]

In more general terms, as already mentioned in chapter 1, and contrary to the expectations of modernisationist thinking, there is no wholesale convergence between western capitalist countries. As stressed by the extensive body of literature on capitalist diversity (Crouch and Streeck 1997; Coates 2000; Hall and Soskice 2001), welfare state regimes (Scharpf and Schmidt 2000; Esping-Andersen 1990; Ferrera 1996), industrial relation systems (Crouch 1993; Candland and Sill 2001), and labour market institutions (Gallie and Paugam 2000; Esping-Andersen and Regini 2001), there is no generalized move towards economies and labour markets exclusively co-ordinated through market mechanisms. While there has been certain basic convergence between country cases, noticeably in terms of the abandonment of demand management and a commitment to the market as the central mode of regulation, large and persistent differences prevail between national models in any of the above-mentioned dimensions in the EU and around the world and contradict convergence thinking (Regini 1999). Empirically, important divergence can be observed both between and within western countries, the latter stemming from the fact that many countries do not make a clear, homogeneous choice between market governance or other types of governance and different types of governance affect different spheres of action. Hence, there continues to be ample diversity and although too much attention for diversity may indeed hide certain convergence tendencies, as argued by Susan Strange (1997), there is clearly no standard or best national model of capitalist societies or labour market governance. As argued by Whitley (1999: 1), '... convergence to a single most effective type of market economy is no more likely in the twenty-first century than it was in the highly internationalised economy of the late nineteenth century.'

As discussed in chapter 1, the explanations for such non-convergence are manifold and will not be further dealt with here. For the purpose of this chapter, several of the insights as well as implications of the capitalist divergence literature should however be highlighted. Firstly, there is the fact that there is no single model of western

[26] Data from the 1996 European Survey on Working Conditions of the European Foundation for the Improvement of Working and Living Conditions (http://www.eurofound.ie/themes/health/hwin4_2.html).

capitalism. In fact, many studies groups countries into strongly diverging clusters, within which cases are similar in terms of social, political and/or economic institutions. For example, Hall and Soskice (2001) argue that there are two types of market economies, the liberal market economy, and the co-ordinated market economy. In the former, they argue, labour markets are governed largely by the market, wages are set through pure competition, and employee protection is extremely limited. In the latter, other types of governance play a much more important role as wages are set through corporatist wage setting, while labour markets are strongly regulated. Esping-Andersen (1990) developed a typology of three types of welfare states in western Europe, a typology later expanded to four types by Ferrera (1996). Gallie and Paugam (2000: 4-7) set up a typology of four unemployment welfare regimes, expressing different ways public authorities provide protection for misfortunes in the labour market (Table 2).

Table 2: Unemployment welfare regimes

Regime	Coverage	Level and duration of cover	Active employment policy
1. Sub-protective	Very incomplete	Very weak	Quasi-non-existent
2. Liberal-minimal	Incomplete	Weak	Weak
3. Employment-centred	Variable	Unequal	Extensive
4. Universalistic	Comprehensive	High	Very extensive

Source: Gallie and Paugam 2000: 5, Table 1.2.

While the work based on such typologies suffers from a number of problems, including over simplification and the adjustment of the analysis of empirical cases to theoretical boxes (Crouch 2003), they do usefully illustrate the point that there is no such thing as western capitalism. Or, phrased differently, they show that there are many different ways of combining the various modes of governance within and economy and a labour market, and that none of them has a monopoly on success. This then leads to the second point to be highlighted, that is, the capitalist diversity literature shows that societies have non-trivial alternatives with respect to how they want to run their respective capitalisms and what kind of societies they want to be (Crouch and Streeck 1997:1). Obviously, this includes labour market institutions. Thirdly, however, this does not mean that societies can, in a voluntaristic way, choose what kind of capitalism,

welfare regime, industrial relations system, or labour market policy paradigm they want or change the prevalent types within short time periods.

Indeed, invariably, types of capitalism or of sub-elements of it are argued to be *enduring* types, that have been relatively stable for longer periods of time and that are firmly rooted in a country's historically developed institutions, attitudes and expectations. Also, historical developments constrain the possibilities for innovation. For example, it would be rather complicated to set up a German-type dual training system in the UK or the US if only because the actors required for such a system (e.g. strong trade unions and employers' organizations) would be missing. Likewise, it would be unfeasible to introduce Italian unemployment benefits in Sweden as they would widely be considered to be unfair and against the country's solidaristic values. Indeed, as a hypothesis, it could be argued that successfully introducing new institutions depends among other things on the availability of the actors that are supposed to 'act out' the institutional script, as well as on it not being in too blatant contrast with a society's basic normative and cognitive frames. From the above, it becomes clear however that there are a variety of models available in the West to draw upon and that there is no obvious model to pursue. Hence, the adoption of external models will to an important extent depend on what is deemed normatively desirable or acceptable and cognitively effective, or on which internal and external actors manage to impose their views.

Chapter 4: Reshaping labour market institutions part I: Actors, power and ideas.

4.1 Introduction

The present chapter, together with the chapters 5 and 6, analyzes the way the four main (groups of) actors identified earlier, i.e. the state, trade unions, employers and their organizations, and international actors (EU, IMF) reshaped the labour market institutions in the Czech Republic and Hungary in the 1989-2002 period. I will discuss the role and importance of the four (groups of) actors as well as the power relations and patterns of interest representation that govern their interaction, their normative and cognitive frameworks and the 'models' they have been trying to institutionalize. The discussion of these issues builds on the earlier-analysed histories of the two cases as well as the international ideational context in which they have developed after 1989. Hence the tasks I try to accomplish in these three chapters is to:

- map the interaction between the actors and the main changes they have caused in labour market institutions;
- highlight ideational consensus and conflicts concerning the role of the state, the market, and social partners, as well as of different types of instruments, regulations and policies in governing the labour market;
- highlight power asymmetries, differences in interests and emerging patterns of policy making and interest representation;
- discuss to what extent the above issues are rooted in the history of the cases;
- discuss the influence of the international ideational context on the actors (are they taking over external ideas, linking to external ideas and examples).

To structure the discussion I divide the 1989-2002 period in four sub-periods:

- The extrication from state socialism, i.e. the period in which state socialism was abandoned up until the first elections. In Hungary I take this period to run from the setting up of the National Council for the Reconciliation of Interests in 1988, through the Round Table Talks, up until the first elections in 1990. In the then Czechoslovakia it runs from the start of the Velvet Revolution also up until the first elections;

- The first governments, i.e. 1990-1994 in Hungary and 1990-1992 in the then Czechoslovakia;
- The second government, i.e. 1994-1998 in Hungary and 1992-1998 in the Czech Republic (the two Klaus governments of 1992-1996 and 1996-1997, as well as the caretaker government bridging until the 1998 elections);
- The third government, in both cases running from 1998-2002.

The present, brief, chapter presents Part I of this analysis, outlining the main concepts and questions concerning the relations between the main actors (section 4.2) and their ideas, interests and models (section 4.3). Chapter 5 presents Part II of the analysis, i.e. an empirical analysis of the time period covering extrication and the first governments. This is the period in which most of the fundamental changes took place in the labour market regimes in the two cases. Chapter 6 presents Part III of the analysis, i.e. an empirical analysis of the time period covering the second and third governments. This is a period of less radical change, however, this does not mean the cases simply continued on the new 'path' set out in the earlier period.

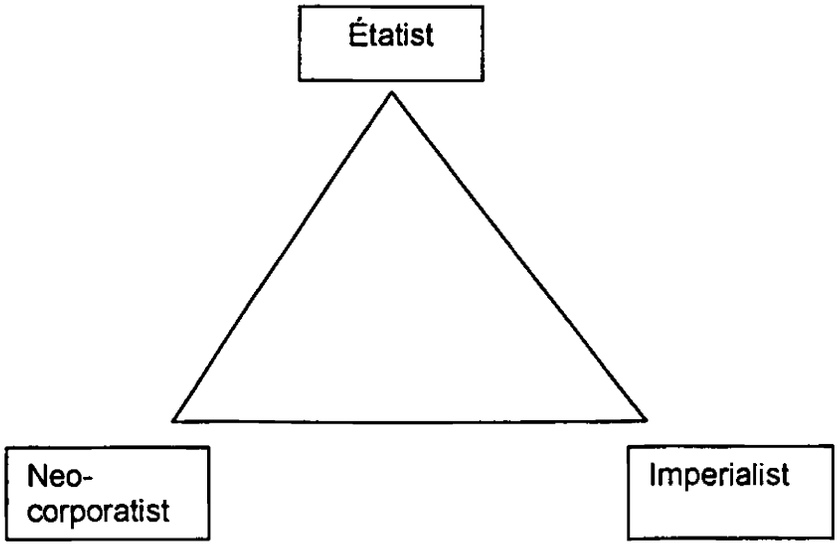
4.2 Actor relations

As far as the relations between actors are concerned, the below figure reproduces Figure 1.5 of chapter one, representing a triangular space marked by three ideal types of actor relations: étatism, neo-corporatism and imperialism. In the coming two chapters I will locate the two cases in this triangular space, including changes over time. Methodologically, I will take the ideal type étatist model as point of departure, a model which, as discussed in chapter 1, supposes that the state, insulated from other actors, autonomously defines the totality of regulations and policies of the newly emerging labour market regimes, as well as their evolution over time. In the below figure this means I start from locating the effective decision-making on these regulations and policies entirely in the upper angle of the triangle. I start from the state as historically this has been the main agent of social and institutional change in the two countries. Also, the state was by far the more dominant of the three during state socialist times in both cases,

and taking it as a starting point in a way mirrors the move away from the state-dominated state-socialist system.[27]

Discussing the cases I will then analyze to what extent trade unions, employers and international actors have infringed on this autonomy, have captured the state or have participated in the definition of rules and regulations. In the case of unions and employers I will consider the extent to which there have been neo-corporatist forms of interest representation and/or modes of policy making in the post-1989 period that have played a role in terms of defining and modifying regulations and policies (see below). In the case of the international actors, I will frame this in terms of the extent to which the EU and IMF have imposed certain types of regulations as a condition for membership (EU) or financial assistance (IMF).

Figure 4.1 : three ideal types of actor relations



[27] Of course, as discussed in chapter 2, really existing state socialism did not resemble this ideal type.

Neo-corporatism

Neo-corporatism has had an important place in the analysis of labour market governance in Western Europe, and it has gone through a number of phases.[28] First, there was a consensus that neo-corporatism was a key mode of governance in the Keynesian 1960s and 1970s in many western countries. Two main conceptions of neo-corporatism were in use (Schmitter's neo-corporatism 1 and 2), that is, neo-corporatism as a structure of interest representation and as a system of policy making (Schmitter 1982). Key to neo-corporatism in this period were incomes policy and the distribution of financial resources (the economic surplus) among participating actors (Molina and Rhodes 2002). Subsequently, in the 1980s, with the rise of monetarism and supply-side economics, the death of neo-corporatism was announced, with the argument that as a mode of governance it did not fit the new macro-economic and political conditions, strongly informed by the neo-liberal doctrine. However, in the past 15 years a resurgence of neo-corporatism became apparent, exemplified by the diffusion of tripartite social pacts in several Western European countries, often under the direction of governments (Regini 2002; Fajertag and Pochet 1997, 2000; Regini 1999). In the more austere conditions of the 1990s and the early 2000s, contemporary neo-corporatism has a different face however and is characterized by (Molina and Rhodes 2002: 317-318):

- a preoccupation with the establishment of adequate institutional frameworks for macro-economic management and micro-economic (supply-side) reform;
- the acceptance of wage restraints by trade unions in return for an undertaking by public authorities and employers to promote employment creation, as well as for enhanced union involvement in policy making and institutional design with respect to the labour market, social security and industrial relations;
- a neutrality to the composition of government, compared to its earlier close association to Left governments;
- a search for a balance between competitiveness and flexibility on the one hand and macroeconomic stability on the other, often through processes of articulated

[28] For some of the main classics of the literature on neo-corporatism see the volumes edited by Schmitter and Lehmbruch (1979) and Lehmbruch and Schmitter (1982). For a comprehensive overview of the development of neo-corporatist analysis since the 1960s, see Molina and Rhodes (2002).

decentralization, that is, by strengthening sectoral bargaining at the national level while strengthening company-level institutions;

- the inclusion of longer-term institutional reforms in macro-political bargaining.

Phrased differently, Visser (2002: 49, italics in original) argues that '...the recent pacts aim at *less* wage growth, *less* public sector growth, *less* costly social policies, and *less* employment protection, for some greater good in the future, like membership of EMU and macroeconomic stability as a condition for investment and employment growth, or a more employment-friendly welfare state.' Hence, contemporary neo-corporatism in Western European countries is aimed at overcoming economic crisis, limiting wage growth and public expenditure, and strengthening stability, competitiveness, and employment creation, and allows unions to participate in the design and implementation of the respective policy programmes and in sharing responsibility for them.

Neo-corporatism has also found its way into post-socialist Central and Eastern Europe where in virtually every country some sort of national tripartite forum was established in the early 1990s, sometimes accompanied by regional or sectoral structures as well. The literature is however ambiguous on how to interpret this post-socialist neo-corporatism as to the extent it has given unions and employers effective influence on reforms. As far as the Czech Republic and Hungary are concerned, many authors stress its limits, fragility and the dominance of the state, as well as the marginal impact social partners have had on social and economic policy in spite of the existence of centralized and decentralised tripartite structures (Pollert 1999a, 1999b; Neumann 1997; Keune 2002; Héthy 1995; Frey 1997; Cox and Mason 2000). Some also point to the particularly weak position of employers' organisation in post-socialist neo-corporatism, making it largely a state-unions affair (Myant 2000; Cox and Mason 2000; Martin and Cristescu-Martin 2003; Héthy 2001).

Others rather call attention to the strength and achievements of neo-corporatism in (part of) the post-1989 period in CEE in general and Hungary and the Czech Republic in particular (e.g. Iankova 2002; Iankova and Turner 2004; Orenstein and Hale 2001; Kohl and Platzer 2003, 2004). They see the tripartite experiments as an institutional solution to deal with an uncertain and potentially explosive social environment. Even though they recognise the dominance of the state and the generalized weakness of employers'

organizations within the corporatist arrangements, they argue that neo-corporatist elements have been of crucial importance in smoothening out differences between the state and the social partners, and in maintaining social peace against the odds of radical social change and deep economic decline. Apart from producing social peace, another group of authors underlines the importance of neo-corporatism in providing the social partners with institutional positions as well as with influence on labour legislation, labour market policies and wage policies (Orenstein 2001; Héthy 1999b). For example, Tóth (1999: 24-26) argues that between 1990 and 1998 a neo-corporatist settlement prevailed in Hungary, where the central negotiating Council became 'the locus of a quasi-national collective bargaining system (*ibid*: 25).'

The ambiguity of the assessment of neo-corporatism in the two cases stems sometimes from the fact that authors consider different levels (macro, meso, micro) and areas of institutional reform and policy making. Sometimes it grows from different normative and cognitive conceptions of what 'proper' neo-corporatism should look like. Also, changes over time sometimes blurs judgments. In chapters 5 and 6 I will reconsider the evidence on this issue. I will focus on three key questions: (i) to what extent are employers and trade unions incorporated in the elaboration of labour market-related rules, regulations and policies; (ii) to what extent have they participated in their implementation; and (iii) to what have unions and employers managed to influence their content.

In line with the discussion in chapter 1, the answer to these questions, as well as the differences between the two cases under study is expected to depend on 3 closely intertwined factors:

Ideas and interests

The participation of unions and employers in the elaboration and implementation of labour market regulations and policies, as well as their influence on such regulations and policies will vary corresponding to the normative and cognitive frames governing state action. Hence, the more the state is convinced that participation of the unions and employers in these processes is (i) legitimate as such, or (ii) a valid strategy to reach its

labour market objectives, the more unions and employers will be invited or allowed to participate and influence them. In the latter case (i.e. when such participation is considered a valid strategy to reach its objectives), based on this cognitive perception, the state will consider it in its interest to foster such participation, while in the former it will simply consider it the right thing to do. The same hypothesis can then be set up for trade unions and employers. An important factor in strengthening normative or cognitive support to neo-corporatism is expected to be the resurgence of neo-corporatism in many EU countries and the importance the EU gives to social dialogue. Given the uncertainty faced by the two countries, as well as the frequent interaction with Western policy makers, this may trigger isomorphic processes.

Power

The participation of unions and employers in the elaboration and implementation of labour market regulations and policies, as well as their influence on such regulations and policies will also vary corresponding to their respective power positions. This for two reasons. One is that ideas on participation of these actors may be linked to the resources they command. The most obvious example would be that the state's cognitive perceptions of the extent to which neo-corporatist participation will 'deliver the goods' will be linked to: the membership of unions and employers' organizations; the extent to which they are centralized, unified and can discipline, mobilize or convince their constituencies; or the type of expertise and information they possess, which may increase the quality of policy making. Secondly, since the ideas about neo-corporatism are likely to vary among actors, power could be used to impose a particular view. A strong state can insulate itself from the other actors, while this is more difficult for a weak state. Strong unions may impose their views or demand institutional positions, which weak unions cannot do. The same counts for employers' organizations. Naturally, institutional positions and participation of unions and employers in the elaboration and implementation of labour market regulations does not necessarily give them power and influence and *vice versa*.

History and path dependence

In line with the discussion in chapter 1, three predictions can be made as to how post-1989 neo-corporatism is influenced by the role of history and path dependence:

- Firstly, long-term legacies may prove of some importance as the two countries may draw on past experiences, which offer solutions to contemporary problems, or which they consider successful or a positive part of their heritage. In this respect, as discussed in chapter 2, reaching broad societal consensus and compromise historically had a much more central role in Czechoslovakia, especially in the social-democratic interwar period, than in Hungary.
- Secondly, the initial power relations that influence the characteristics of emerging neo-corporatist arrangements are rooted to some extent in the past. This would favour the role of the state, the more powerful actor of the three in the past. The strength of post-1989 position of state-socialist trade unions can be expected depend to an important extent on the question if they inherit legitimacy, expertise, membership and/or financial or material assets from the past. The same counts for employers' organisations that existed during state-socialist times.
- The third is that once some type of post-1989 neo-corporatist arrangements are set up, it is hard for any of its participants to completely op out of such arrangements.

Imperialism: international actors

As far as the international actors are concerned, their role is considered to be two-fold. One is that they participate in the shaping of the international ideational context, an aspect that was dealt with in chapter 3. What should still be said on the issue is that this shaping of the ideational context represents an indirect form of influence (compared to for example direct influence through coercive processes) and could hence be seen as a form of 'indirect imperialism'. The other, key to the understanding of actor relations, is that international actors may try to interfere in the shaping of labour market institutions in

exchange for membership (EU) or financial assistance (IMF). This would indeed concern direct, coercive imperialism.

The EU can be expected to have a key role in this respect considering the priority both countries have given since 1989 to becoming an EU member and their actual entry into the club by mid-2004. The main type of influence has been institutionalized in the form of the accession criteria, i.e. the conditions the EU posed to applicants for membership.[29] These conditions find their origin in the so-called Copenhagen criteria. The Copenhagen criteria set out three very broad political, economic and legal principles:

"Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and, protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union."[30]

Subsequently, the latter condition was translated into the condition that the candidate countries had to adopt the *Acquis Communautaire*, i.e. the body of EU legal regulations, as part of their national legislation, as well as to develop the administrative and judicial capacity for their effective application. Negotiations on the adoption of the *acquis* with the first wave of candidate countries, of which both the Czech Republic and Hungary formed part, started in 1998 as part of the accession strategy outlined in the Agenda 2000.[31] Part of this process was a regular evaluation by the Commission of the progress made by the candidate countries in the adoption of the *acquis*. In terms of labour

[29] Another type of influence has been channelled through the financing of all kinds of technical co-operation projects concerning labour market issues, mainly under the PHARE programme, the EU assistance programme for the CEE countries. These projects could be considered a form of normative isomorphism since they often foment contacts and exchange of experiences between CEE and EU experts and professionals. However, I will not consider these further because of the fragmented nature of this type of assistance, the often quite small size of the projects, as well as the difficulty to obtain reliable information on their actual implementation and effects. These difficulties are further exacerbated by the fact that these projects do not necessarily aim to diffuse the same kind of knowledge or views. For example, in an interview with an official of a local labour office in the Czech Republic in 1996, the official complained that when they got an Italian expert working on a PHARE project they were told that the best way to run the labour office was the Italian way, while a year later the new Swedish expert would argue the same for the Swedish way. Hence, although I do not assume that these projects have not been of importance, I do assume their importance pales in comparison with the obligation to fulfil the accession criteria.

[30] Conclusions of the 1993 Copenhagen Summit.

market regulations and policies this concerned first of all a series of EU Directives that have repercussions for labour legislation. Apart from the formal or legal 'hard core' *acquis*, there were also a number of additional requirements or 'soft' elements of the *acquis* (Boda and Neumann 2000), referring to the adoption of certain practices and attitudes common in the EU and required for full-fledged participation in EU institutions. This includes above all social dialogue. Although there are only a limited number of aspects concerning social dialogue incorporated in the legal *acquis*, according to an article by a then DG Employment and Social Affairs staff member (Vaughan-Whitehead 2000), it is also considered part of the EU's institutional *acquis* and EU practice. European social dialogue has over the years become an important source of new EU regulations and a mechanism for governing social policy, which places important responsibilities on the social partners. Thus the EU expects applicant countries to adopt the practice of meaningful social dialogue at the national and sub-national level, and to prepare the social partners for participation in European-level social dialogue. Another example is the capacity to participate in the Open Method of Co-ordination (OMC) governing a number of policy areas within the EU, most importantly in the present context the European Employment Strategy (EES).

Characteristic of the relationship between the EU and the ten candidate countries was that it was profoundly asymmetrical: the powerful Union on the one side and the weak applicant countries on the other. The condition for membership were defined unilaterally by the Commission, which also judged if they were properly fulfilled or not. The negotiations opened up some flexibility in how this adoption should take place and in which time frame compliance should be completed, however, this flexibility is limited. The implications here are clear. We can simply expect the Czech Republic and Hungary to be forced to adopt both the formal regulations included in the *acquis* in domestic legislation, as well as to adapt practices to the informal *acquis*, in particular through the practicing of some form of social dialogue and through some form of participation in the OMC EES.

However, while this would seem a clear example of coercive isomorphism, as already stressed in chapter 1, in the discussion of the empirical cases it is to be seen to

[31] Agenda 2000 was adopted by the Commission in July 1997.

what extent the adoption of EU regulations and practices really affected national practices or to what extent it was largely an at-the-surface or symbolic process. Also, while the demands of the EU on the two countries are essentially the same and can be expected to have largely the same impact, this does not necessarily lead to a hypothesis of convergence between the two cases. As illustrated by the wide diversity in labour market regimes among EU countries, the EU Directives as well as participation in EU processes like the OMC have an impact on some specific labour market issues, while providing for wide diversity on many others. Indeed, the EU does not promote one coherent model.

The situation is different for the IMF. The IMF has a much clearer and more simplistic labour market model. This largely consists of widespread market governance, a large private sector, minimal employment regulations and a minimal means-tested social safety net. This model is then nested within the broader objectives of macro-economic stabilization and inflation reduction, trade and price liberalization, and privatization. However, contrary to the EU, it does not have membership on offer, but money. For the IMF the main instrument to directly influence regulations and policies are conditions linked to loans, laid down in the (unfortunately confidential) letters of intent, outlining policy commitments on the side of governments. Indeed, such loan conditionality can again be interpreted as a type of coercive isomorphism. Where possible I will make explicit where the IMF has exerted pressure on labour market related policies in this way in the two countries. In comparative terms, its influence on domestic processes can be expected to be linked to the financial needs of the two countries, primarily expressed in the amount of foreign debt they face. In 1989, Czechoslovakia had a foreign debt of US$ 7.9 billion (or 14.9% of GDP) compared to US$ 20.4 billion (or 71.3% of GDP) for Hungary (Myant et al. 1996: 100). Hence, the power position of the IMF can be expected to have been much stronger in the latter than in the former.

What type of conditions can we expect the IMF to try to impose? Considering its focus on structural adjustment-type of policies, the issues directly related to the labour market would be three: a reduction of the role of the state as an employer through privatization; the limiting of state expenditure through limits on public sector wages and on labour market and employment policies; and the limiting of inflation through limits on wages.

4.3 Ideas and interests

The second question here is what type of labour market regime the actors discussed above have been pursuing. Based on the model presented in chapter 1, the historical overview and the discussion of the international ideational context, what can we expect in this respect? Considering the widespread rejection of the state-socialism, one option would be a wholesale rejection of the state-socialist experience and institutions. Nevertheless, this seems too drastic an assumption, considering the nature of ideas and the interests of certain parts of the population. As discussed in chapter 1, ideas, internalized principles and understandings, change over time, in particular as a response to crises, and obviously the collapse of the state-socialist regimes triggered, or intensified, the search for new labour market regimes. At the same time, however, ideas are not discarded off easily or automatically, are sticky, and, explicit or implicitly, certain ideas prevalent under the previous regime can be expected to continue to influence the normative and cognitive perception of actors. This also because not everything belonging to the state socialist period was necessarily dumped in the garbage can. Hence, parts of the old paradigm may be among the building blocks of the newly-to-be-constructed paradigm and as such can be expected to produce some elements of continuity, in particular in the first years after the breakdown of the old system. Similar elements of continuity have been observed in chapter 2 between pre-WWII capitalism and the post-war (indeed radical) change towards state-socialism.

Hence, we would expect to find some of the key features of the pre-1989 ideas on the objectives and means of social and economic development in general, and the labour market in particular, to play a role in the post-1989 era. At the most general level, the fact that the state socialist modernization project collapsed to an important extent because it was considered to have failed to deliver the superior democracy and economic modernization it promised and to catch up and overtake western levels of economic development, clearly suggests that the goal of economic modernization as such continues to drive the thinking on development, that the experiences of the richer countries in the

world (i.e. mainly the West) continue to be the yardstick along which modernization and development are measured, and that catching up with these countries continues to be a main objective. The failure of the alternative approach to such modernization has then resulted in the underwriting of the broad principles of western democratic capitalism and their respective labour market regimes. This would suggest, for both cases, an adoption of the basic labour market related normative and cognitive frames reigning contemporary Western capitalism, as they are incorporated in basic capitalist economic principles as well as international human rights, basic international labour standards and EU norms.

However, considering the existence of a wide variety of western capitalisms and labour market regimes, all somehow building on the basic capitalist principles and values, what type of labour market regimes would be pursued in the two countries? Instead of making detailed predictions on this matter, I will concentrate here on the broad differences we could expect between the two cases. In chapter 2 it was shown that there have been major differences between the labour market regimes in the two cases, both in long-term and shorter-term historical perspective. In the longer term, in the pre-WWII era, in the Czech Lands under the empire, and especially in inter-war Czechoslovakia, this paradigm included a stronger orientation towards strengthening equality and solidarity, reducing the role of the market and the shielding of workers and enterprises from the negative consequences of the market, a state that was ready to assume a central role in this respect, and a free and influential trade union movement. In Hungary, this was much less the case, society was much more polarized, social and labour policies were much more restrictive, it was mainly employers that received protection from the market, and trade unions were severely repressed. In the shorter term, in the last two decades or so of the state-socialist period, again it was Hungary that departed from the orientation towards universal state employment, de-commodification of labour, and the taboo on unemployment, all a product of the earlier state socialist period. In Czechoslovakia, these ideas did continue to be paradigmatic up until 1989, albeit within a Soviet-style oppressive political regime.

In line then with the assumption of partial continuity, we would expect more concern in post-1989 Czechoslovakia and the Czech Republic with the avoidance of unemployment, the objective of full employment, employment protection, and the

constraining of market mechanisms on the labour market than in Hungary. We would also expect different perspectives on the role of the state and corporatist actors in the two countries, with the Czech (-oslovak) perspective assigning these actors a larger role in labour market regulation, at the cost of the market. In Hungary we would expect less preoccupation with these issues, and more emphasis on market mechanisms to regulate the labour market.

These ideational differences may however be partially flattened out because of the influence of the international ideational context. Considering the uncertainty national actors face in the process of capitalism building, they are likely to search externally for legitimate and effective templates and strategies to mimic, in particular in western countries, generally taken as the vanguard of capitalism. And as discussed in the previous chapter, the market discourse carries a heavy weight in these countries, in particular in the early 1990s, even though the actual situation in many of them is far from market domination. The crucial question is possibly which models national actors would consider the more important ones, and this may well differ according to the subject area under discussion. If we look for example at macro-economic, fiscal and monetary policy, the predominance of the Washington consensus and the Maastricht Treaty in the West would point towards neo-liberal monetarist models. In the labour market area this may well be different. The historical affinity of the two countries with the Austrian empire and Germany is likely to increase the weight of the Austrian and German industrial relations and labour market models, with a greater role for non-market types of governance, including a stronger role for social partners, centralised and sectoral bargaining, a stronger role for the state in employment creation and maintenance, equality and solidarity objectives, etc.. Also, the focus on entry in the European Union, strengthening throughout the 1990s, is likely to have made its mix of market and non-market institutions, competition and protection seem more and more relevant. We would then expect in both countries that in the 1990s national actors, i.e. the state, unions and employers recur both to elements of the orthodox market discourse as well as of elements of the German and other less market-oriented models, and an increasing influence of the EU discourse over time. However, taking into account the diverse legacies, we would expect a stronger market orientation in Hungary.

Chapter 5: Reshaping labour market institutions part II: Extrication and the first governments.

5.1 Comparing extrications

As discussed in chapter 2, the relatively long and negotiated regime change in Hungary, embodied in the Roundtable Talks, contrasted sharply with the protracted capitulation of the regime in Czechoslovakia, following sudden popular protest. These differences have been linked to differences in the development of state-society relations in the two cases, as well as in economic and social institutions. Stark and Bruszt (1998) have stressed the importance of taking into account the differences between these 'paths of extrication' from state socialism, since these paths are likely to constitute key events in reshaping both the relations between the major social actors as well as economic and social institutions. Stark and Bruszt have attempted to directly link the mode of extrication to the character of subsequent processes of privatization. Following their line of thought, here I start from the assumption that differences in the mode of extrication will also have had repercussions on the character of the labour market institutions in the two countries.

Below I will discuss the mode of extrication as an outcome of history and as an element in the reorientation of the labour market institutions in the two cases. Since this process was relatively brief in the Czech Republic and extensive in Hungary, necessarily most of the discussion will be on the latter. I will give little to no attention to international actors in the discussion of this period. Although international developments, in particular those in the Soviet Union were of crucial importance in shaping the conditions within which the state socialist regimes in the two countries could collapse, they were of little direct relevance for the way events proceeded. The Soviet Union was largely occupied with its own reform process and was less interested to interfere in the affairs of CEE countries, and western governments were surprised and cautious observers, waiting for the collapse of state socialism of its own accord (Békés 2002).

Negotiated regime change in Hungary 1988-1990: state socialist neo-corporatism and the Roundtable Talks

The last MSZMP government (1988-1990), led by Miklós Németh, nicely embodied the changeover from state socialism to democratic capitalism, as it claimed to pursue the creation of a 'socialist market economy', i.e. state socialism with an economy co-ordinated to an important extent through market mechanisms. It also set an important step towards negotiated reforms. In 1988, the Németh government set up the National Council for the Reconciliation of Interests (NCRI), attempting to establish a sort of neo-corporatist structure and to transfer certain decision-making responsibility to the state-socialist social partners. In the context of the deepening economic crisis the Council was considered an instrument to legitimise reforms and to maintain the necessary political and social stability. The immediate purpose of the NCRI was to establish tripartite wage regulations when central wage setting was being abolished gradually and collective bargaining gained importance. Through the NCRI, the Party also aimed to portray itself as a reform minded, socially-sensitive and inclusive party, and hence a viable option for the (more democratic) future. However, its sheer existence had effects far beyond this purpose. By establishing the NCRI, the state questioned its own exclusive decision-making rights, put an end to the indivisibility of the state-socialist regime, prompted the social partners to act as distinct partners and to develop their own identities and interests, and assured that tripartism got a foothold in Hungarian industrial relations (Ladó 1996: 160). It thus became a catalyst for the emergence of a new industrial relations system.

The government however maintained a firm grip on the NCRI and reserved it exclusively for the traditional state socialist actors, on the union side the SZOT was the sole actors, while the 'employers' side was dominated by the Chambers of Commerce. The new LIGA trade union confederation was not invited to join the negotiations and also the newly established National Association of Entrepreneurs was not offered full participation. Indeed, the state-socialist variant of neo-corporatism offered an opportunity for emancipation only to the 'old' social partners. The NCRI functioned until the MSZMP government lost its powers in the context of the Roundtable Talks. It dealt mainly with wage regulation, i.e. with the setting of the minimum wage and granting

exemptions to certain categories of enterprise from the tax-based incomes policy, but in the last months it also got involved in employment policy by allocating central funds to crisis regions (Ladó 1996). As we will see later on, the NCRI proved to be an important legacy once the first post-socialist government was in place.

In early 1989, it was the opposition that took the initiative for direct negotiations on regime change with the MSZMP. The quite heterogeneous group of opposition organizations had joined forces in the Opposition Roundtable. Instrumental to the formation of the Opposition Round Table was a proclamation by the Independent Lawyers' Forum in March 1989, which urged the country's opposition organizations to start negotiations with each other on the key issues of the transition to a new system.[32] This document states the widespread perception of the failure of the state socialist modernization project to deliver economic results comparable (let alone superior) to those of the 'advanced' countries, as well as the need for a fundamental transformation with the aim of catching up with these countries. Indeed, as in previous eras, it takes the experience of the Western countries as the yardstick of progress and the self-set task is catching up with this progress, this time not through an alternative modernization project like state socialism, but rather by becoming more like these frontrunners. As the proclamation states:

'... the great historical experiment which was started in 1917 in the name of "building socialism" has collapsed under the weight of the global industrial revolution which unfolded during the last few decades of the 20th century. The fact that all countries concerned had seriously fallen behind the most advanced countries of the world, signals the hopelessness of the enterprise itself, rather than the incompetence of a given political nomenclature. Therefore, any chance for these countries to catch up is conditional on their ability to transform fundamentally their entire economic, social and political organization.'

[32] *Proclamation of the Independent Lawyers' Forum to the Organizations of the Opposition*, March 15, 1989. This and the other documents is use here related to the 1989 Round Table Talks are available in Bozóki (2002).

The Roundtable Talks in Hungary took place between three sides: the MSZMP, the Opposition Roundtable and the 'Third Side', a number of organisations like the SZOT, all linked to the MSZMP.[33] During the first meeting of the Roundtable Talks, Károly Grósz, then Secretary-General of the MSZMP, largely echoed the words of the Independent Lawyers' Forum, demonstrating the continuing consensus among the Hungarian political elite on the goal of modernization and catching up with the West. He also confirmed that this should now be pursued by different means than in the past 40 years: 'Economic and political reforms based on general consensus are meant to ensure that we recover from the economic crisis and the country can start to catch up with the most advanced regions of the world, instead of becoming marginalized without hope for recovery.'[34]

The proclamation of the Independent Lawyers' Forum emphasised above all the economic nature of the crises the country has been going through, however, it underlines that '...there can be no economic growth without the transformation of the political regime, which acts as a yoke on society and the economy alike...'. Central to the proclamation is the call for peaceful change towards a democratically elected parliament, and for unity among the opposition organisations. The then formed Opposition Roundtable subsequently adopted democratic transformation as it main goal. Its full members were eight political organisations, including all the political parties currently in the Hungarian Parliament, except for the reformed MSZMP, while the LIGA trade union confederation had the status of observer. Indeed, the agenda the Opposition Roundtable initially proposed for the talks with the MSZMP were all of a political-legal nature, while social and economic objectives were conspicuously absent.[35] As later stressed by Imre Kónya, one of the representatives of the Opposition Roundtable, 'The first step towards stopping the nose-dive of the economy is to transform the political system'.[36] It was only upon the insistence of the MSZMP and the SZOT, both emphasising the urgency to address the economic crisis directly and immediately, that in the agreement on the commencement of the Roundtable Talks, apart from the objective of 'defining the

[33] For detailed accounts on the Roundtable Talks see Bozóki (1993; 2001; 2002), Sajó (1996).
[34] Words expressed during the opening plenary meeting of the National Roundtable Talks, June 13, 1989 (see the narrative text of the video recording of this event in Bozóki 2002).
[35] See: *Proposal of the Opposition Roundtable to the Central Committee of the Hungarian Socialist Workers' Party Concerning the Roundtable Talks*, April 19, 1989.

principles and rules of democratic transition', a second objective concerning 'the strategic tasks of combating economic and social crisis' was included.[37]

This does not mean that the Opposition considered social and economic issues of lesser importance. It firmly rejected most aspects of the state-socialist social and economic system and favoured a radical overhaul of economic and social institutions, to establish a capitalist, market-driven system with the final aim, again, of economic modernization. However, the Opposition initially wanted to exclude economic issues from the talks. This partly on the assumption that there were no guarantees that any agreements would be respected until the necessary political guarantees were in place, and partly because the Opposition did not want to take any government responsibilities on its shoulders before the first elections, and did not want to share in the blame of the economic crisis without possessing the powers of government.[38] It only agreed to include economic issues because it feared the MSZMP would push-through crucial legal changes favouring the old elites before the first elections.

As far as this second objective then was concerned, six strategic tasks were specified:[39] (i) strategic questions concerning economic crisis management (indebtedness, structural reform, inflation, etc.); (ii) social consequences of, and management methods for, the economic crisis; (iii) property reform, and, in particular, conversion from state ownership; (iv) questions relating to landed property and the Act on Co-operatives; (v) central government budget reform and the Public Finance Act; (vi) competition law and anti-trust regulations, the removal of legal restrictions on commercial enterprise. No specific references were made to employment, labour market policies, or industrial relations, not perceived as priorities at that moment in time. At the same time, there was a clear notion that the forthcoming changes would have social consequences that would have to be 'managed', including a fear of unemployment and poverty.

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[36] Words expressed during the opening plenary meeting of the National Roundtable Talks, June 13, 1989 (see the narrative text of the video recording of this event in Bozóki 2002).

[37] *Agreement on the Commencement of Effective Political Talks*, June 10, 1989, signed by the members of all three side of the Roundtable Talks.

[38] Iván Pető of the SZDSZ in the minutes of the plenary session of the second meeting of the National Roundtable Talks, June 21, 1989.

[39] *Agreement on Certain Aspects of the Thematic Structure and Schedule of the Political Reconciliation Tasks, signed by the three parties to the Roundtable Talks*, June 21, 1989.

The Opposition Roundtable did not elaborate much on economic issues in the early sessions of the Roundtable Talks, speaking only in broad terms about the goal of a market economy, privatisation and a series of legal changes. The MSZMP was more specific. It embraced the goal of creating a market economy without much reservations: 'We see the market as the primary institution capable of integrating the economy.'[40] The market had its limits however: 'Only if the market is socially ineffective should it be allowed to have resource to non-market instruments.'[41] Here then also the labour market enters the Roundtable Talks: 'However, the functioning of a market economy does have some negative consequences for society. One is the appearance of a new phenomenon: unemployment. We are putting the emphasis on full employment as much as possible, as well as on the creation of new jobs and retraining. Social safeguards and services will have to be developed for those who become temporarily squeezed out of the labour market.'[42]

Also the Third Side at the Roundtable Talks, represented by László Sándor, economic secretary of the SZOT (who would later become the leader of the SZOT's main successor, the MSZOSZ), called for '...ensuring greater protection for the social groups they represent, such as those on a wage-based income, pensioners, young people, women and local communities, and safeguarding them from the consequences of economic crisis, inflation, job cuts and the shrinking welfare function of central government.'[43] Still, he emphasised, in line with the opinion of the Opposition Roundtable on the primacy of political reforms, that basic laws on economic and social issues should not be adopted before the crucial political agreements were in place.

Between June and September 1989, negotiations between the three sides took place in committees on all the agenda issues of the Roundtable Talks. During these negotiations and in the conclusions of the Talks the primacy of political reform was confirmed and a series of agreements was reached concerning the way towards the new democratic system and its rules. Indeed, the Roundtable Talks above all turned out to be

[40] Pál Iványi, MSZMP spokesman, in the minutes of the plenary session of the second meeting of the National Roundtable Talks, June 21, 1989.
[41] Ibid.
[42] Ibid.
[43] László Sándor in the minutes of the plenary session of the second meeting of the National Roundtable Talks, June 21, 1989.

the occasion for the creation of the new political class or elite and of a political system dominated by political parties, at the expense of other organizations representing society (Stark and Bruszt 1998: 42-47). Other types of socio-political organizations were weak and had only a marginal role in the Roundtable Talks. This is particularly true for the trade unions. While both the SZOT and the LIGA (as observer) were present at the Round Table discussions, they practiced severe self-restraint, leaving it to political parties to shape the future of the country (Tóth 2000; Bozóki 1993; Sajó 1996). This 'supremacy of political parties' (Stark and Bruszt 1998) has not been seriously challenged by any social groupings and has survived until today.

On labour issues no such clear agreements were reached, except for certain relatively minor issues like the inclusion in the Labour Code of a ban on discrimination in the workplace. Economic and social reforms were effectively not defined in this process of negotiations but were left to the still-to-be-elected first democratic government. And where economic and social issues were discussed, most attention was given to the establishing of markets and competition and to privatization.

Still, in spite of its relative inconclusiveness on labour issues, the Roundtable Talks were of decisive importance in spurring the Németh government to introduce a number of radical reforms in terms of labour market regulations. Between the end of the Roundtable Talks and the election of the first democratic parliament in Spring 1990, the breaking with the past was clearly reflected in the way constitutional reform carefully deprived trade unions of their distinctive role under state socialism, separating them from the state, depriving them of their legislative functions, and positioning them at the same level as other interest representation groups, in particular employers' organisations (Kollonay and Ladó 1996).

At the same time, workers and unions received new basic rights, in particular the right to strike as well as freedom of association. Also, some of the legal barriers to collective bargaining were lifted. This in spite of a growing anti-unionism, fueled by the identification of unions with the state-socialist regime. The fact that these reforms included certain provisions protecting workers' rights was to an important extent due to the significant role of international standards, in particular the International Convention on Economic, Social and Economic Rights and the main ILO Conventions, as well as the

drive to harmonise legal norms with those of the European Union (Kollonay and Ladó 1996: 112-113; Horváth 1991). Indeed, it was the perceived legitimacy of these international standards as well as the anticipation of EU membership that prompted the legislators to reflect them in the Hungarian legal framework.[44]

In addition, this period comprised a vast change in the composition of the industrial relations actors in Hungary. The Party lost its place as a key actor in industrial relations, which was taken up by the state. Then there was an increased differentiation and fragmentation of the trade union movement, leading to increased trade union pluralism. In 1988, the LIGA had already been founded and participated as an observer in the Roundtable Talks. In 1989, a second new trade union confederation was founded, the National Confederation of Workers' Councils (MOSZ). Both tried to form an alternative to the SZOT, considered a non-legitimate workers' representative. Then, in 1990, the SZOT split into four confederations, while its industrial branch unions split into numerous trade unions. The four confederations emerging from the SZOT were (Csákó et al. 1994; Héthy, 1999b):

- The National Confederation of Hungarian Trade Unions (MSZOSZ), for long the largest trade union confederation in the country, organizing workers in mining, manufacturing, construction, commerce and public services;
- The Trade Union Cooperation Forum (SZEF), predominant in public services, organizing in particular health workers and teachers;
- The Confederation of White Collar Trade Unions (ÉSZT), organizing academic and higher education public employees;
- The Autonomous Trade Unions' Confederation (ASZSZ), set up by the Chemical Workers Union.

Also, trade unions membership ceased to be compulsory in 1988, starting a rapid decline of membership. The SZOT and it successor unions lost about half their membership in the period 1988-1993; still the LIGA and MOSZ never managed to attract enough members to challenge the 'old' unions.

[44] This does not mean however that international standards automatically created consensus. For example, the law institutionalizing the right to strike received strong opposition from both the orthodox wing of the Socialist Party and from the MDF and SZDSZ.

As far as employers' associations are concerned, like in the case of the trade unions, some of the organizations already existing before 1989 continued their operation, reforming and adjusting themselves to the new conditions, while a number of new organizations emerged as well. Those with a longer history are the Hungarian Industrial Association, the Chamber of Artisans, the National Association of Agricultural Co-operatives, the National Federation of General Consumer Co-operatives, and the National Federation of Traders and Caterers, all originally established between 1948 and 1951. Since 1988 several new organizations emerged, i.e. the National Association of Entrepreneurs, the Hungarian Chamber of Agriculture, the National Association of Employers (the largest employers' organization), the Federation of Hungarian Industrialists, the Hungarian Association of International Companies, the Bank Association, and STRATOSZ, which organizes large public utility companies. Indeed, the employers are an even more heterogeneous group than the unions, representing a range of diverse interests.

By the time of the first elections, then, the main Hungarian actors of the post-socialist era were established, including the main political parties and the main trade unions and employers' organisations. In the next section we will see that, because of the sudden collapse of the state socialist regime in Czechoslovakia, there this was much less the case.

Capitulation in Czechoslovakia: a broad coalition and unified unions

The Czechoslovak process of extrication was in many ways the opposite of the Hungarian case. The state socialist regime capitulated after a fairly brief period of mass demonstrations instead of negotiating regime change with the opposition. Because of the much more orthodox nature of the regime, no opposition organisations comparable to the Hungarian ones existed at the moment these demonstrations started and with the exception of the communist party none of today's political parties existed at that moment.[45] Nor were there any alternative trade unions to the official ROH. There were

[45] The CSSD, presently the main party in the Czech Republic, claims to be founded in 1878 during the Austro-Hungarian Empire. However, in 1948 it was forced to merge with the Communist Party and effectively stopped functioning. It was re-established in November 1989.

however, as discussed in chapter 2, the dissidents that openly challenged the regime, the technocrats that did so much more covertly and a number of smaller social organisations speaking out against the regime that emerged in the late 1980s. It was only during the Velvet Revolution that the Civic Forum (OF) in the Czech part of the country and Public Against Violence (VPN) in the Slovak part were created to co-ordinate the opposition movement, thus assuming the role of representatives of society against the state, and that political parties started to be formed. Both were umbrella movements uniting a broad spectrum of organisations and individuals of quite diverse political views and policy preferences. Their 'uneasy alliance' was however based on a 'negative consensus' stemming from the struggle against a 'common enemy' (Rychtenik 1995), i.e. on their rejection of the state-socialist regime. Hence, while OF produced a programmatic document titled 'What We Want', in which it called for a new Czechoslovakia based on, among other things, the rule of law, free elections, a market economy and social justice, its members varied substantially in their views concerning the '... concrete steps needed to achieve these aims and the nature of the society and economy to be created (Wolchik 1991: 80).'

In the Czech Lands, the OF was led by two groups with quite divers ideas on what post-socialist reform was all about. There was general consensus on the need to move towards some sort of Western European democratic capitalism but important divisions occurred concerning the pace and direction reforms were supposed to take, or on what type of capitalism should be pursued. The dissident intellectuals, exemplified by Havel, were first of all concerned with restoring morality, 'anti-politics', strengthening 'civil society' and building a 'good' and just society. They would often be close to traditional social-democratic ideas and advocated social justice. They also favoured an important role for 'civil society' in the new Czechoslovakia, including trade unions. Already in the famous Charter '77, which severely criticised the Czechoslovak state socialist regime for violations of human rights and of the Helsinki Agreements, they called for trade union freedom: 'This state of affairs likewise prevents workers and others from exercising the unrestricted right to establish trade unions and other organizations to protect their

economic and social interests, and from freely enjoying the right to strike provided for in Clause 1 of Article 8 in the second-mentioned covenant.'[46]

The other group, the technocrats, would be more pragmatically oriented and concerned with managing the creation of a new socio-economic system. Their most influential exponent was Vaclav Klaus, an admirer of Thatcher and Friedman and a staunch promoter of neo-liberal and monetarist ideas. The Klausites were also much less charmed by civil society and were in principle against any influence of unions and employers' organisations on government policy. Policy making, they argued, was the prerogative of democratically elected politicians who have a 'monopoly on legitimacy' derived from the 'collective will of the people' and not of voluntaristic social groupings (Mansfeldová 1995).

Nevertheless, it was this unlikely coalition between dissident intellectuals and former communist technocrats which, instead of Weber's protestant private entrepreneurs, became the historical agent bearing the 'spirit of capitalism' (Eyal 2000). Their common enemy inspired them to seek co-operation and consensus to bring down the state socialist regime and to initiate the creation of a new society. Their temporary unity was decisive in bringing about systemic change and, as will be discussed below, also in setting the country on a quite different course of reform than Hungary.

If the leading factions of the OF had different views on what the future of the country should look like, among the population at large there was even less clarity on these issues in late 1989-early 1990. During the Velvet Revolution:

'...the public did not have a clear sense of the scope and direction of change it desired. It would be misleading to think that in the course of the drama of regime collapse the citizenry already had its sights firmly set on a Western parliamentary democracy with a capitalist market. For example, public opinion polls from early December 1989 showed only 22 per cent supporting wholesale privatisation of industry, and only 13 per cent favouring privatisation of agriculture. About 45 per cent wanted to see Czechoslovakia follow a reform socialist path, only 3 per cent favoured a capitalist path, and the single largest group (47 per cent) favoured a 'third' or middle way (Leff 1997: 83).'

[46] *Manifesto of Charter '77*, January 1977. The second-mentioned covenant refers to the International Covenant on Economic, Social and Cultural Rights.

Following brief negotiations between the state-socialist government and the opposition, the government resigned and on 10 December 1989 a Government of National Understanding, led by Marian Calfa, took office, a mix of communists and anti-communists, the former being a minority. Also, Vaclav Havel was elected president and a few weeks later Dubček, who had briefly led the reform attempts of the Prague Spring, was elected speaker of parliament. In addition, democratic elections were announced for June 1990.

Preparing for the first elections was the main task of this temporary government. However, some important institutional innovations were made, especially redesigning the role of trade unions, following, as in Hungary, major international standards. Already in early 1990, freedom of association and trade union plurality were regulated by a Federal Act. Also, trade unions were de-linked from the state and their co-decision rights in legislative matters abolished. Early legal changes in 1990 also allowed for the appearance of private entrepreneurs.

As far as the trade unions are concerned, where in Hungary a fragmented and divided union movement emerged when new union confederations appeared already before the end of state socialism and the 'old' SZOT split up into four confederations, in Czechoslovakia things went quite differently. Under the state socialist regime there was no place for alternative unions to the official ROH. However, in late 1989, as part of the Velvet Revolution, enterprise unions formed some 6,000 strike committees which organised protest strikes against the state socialist regime, including a general strike on 27 November (Tomeš and Tkáč 1996; Pollert 1996; Myant and Smith 1999). A co-ordinating body founded by these committees subsequently took over the ROH at an All Union Congress in March 1990, including its organisational structure and assets, and established the Czech and Slovak Confederation of Trade Unions (ČSKOS), later the ČMKOS in the Czech Republic. The ČSKOS at that moment organised some 80 per cent of the labour force, while there were only few and much smaller other union confederations, the most important one at that moment being the Confederation of Arts and Culture (KUK), established in February 1990. The result was a fairly cohesive trade union movement dominated by one sole confederation, which contrasts with the situation in Hungary, where bitter fights have been fought between the 'old' and the 'new' unions.

The ČSKOS was less closely identified with the former regime than many 'old' unions in CEE because of its role in the Velvet Revolution and the replacement of the top of the ROH, however, at the same time it showed strong organizational continuity with the ROH (Večerník 2001). Indeed, for a long time the unions would feel the fear of being identified with the previous regime one way or the other and have done their best to establish themselves as independent civil society organisations, not linked to political parties. They have also been struggling with their clear support for capitalist reforms on the one hand, and defending the interests of their members and of certain vulnerable groups in society on the other. Still, the ČSKOS would thus seem to be in a position of relative strength compared to the divided Hungarian unions. Similarly to the Hungarian unions it did however start loosing members rapidly. At this point in time there were still only few employers' organisations, most of which were established only after the first elections.

Indeed, where at the end of the process of extrication in Hungary all major actors relevant for the present study were established, in Czechoslovakia this was much less the case. Here, extrication served to establish a broad opposition front and to bring down the old regime, not so much to firmly establish the main actors of the new system. As we will see below, the broad opposition movements did not have a long life and a differentiation of actors took place as of 1991. However, the fact that it were broad movements instead of political parties who would be the protagonists of the upcoming elections and the first elected government did have profound implications for the labour market path the case would be moving along for the coming decade.

5.2 The first Hungarian government (1990-1994): towards a negotiated social market economy?

The period of extrication discussed above has obviously been an important one for the present study, in particular for the emergence or consolidation of key actors. Especially in Hungary also some basic changes were made to labour market regulations, aligning them to the basic international standards of western capitalism, perceived as highly legitimate. However, as will be shown in this section, in both cases it was in the period that the first

democratically-elected governments were in place, i.e. 1990-1994 in Hungary and 1990-1992 in Czechoslovakia, that most of the fundamental changes to labour market institutions were made and that the relations between the actors of our model were reshaped.

The context: neo-liberal reforms, state intervention, FDI and the goal of Europe

The first democratic elections of 1990 in post-socialist Hungary brought victory to the Hungarian Democratic Forum (MDF, with 43% of parliamentary seats), which under the leadership of József Antall established a nationalist-Christian government in coalition with the smaller Independent Smallholders Party (FKGP) and the Christian Democratic People's Party (KNDP).[47] These three parties had competed with the other parliamentary parties: the liberal Alliance of Free Democrats (SZDSZ) and Young Democrats (FIDESZ), as well as the Hungarian Socialist Party (MSZP), the successor of the former official Party. Turnout at the elections was much lower than expected for such a historical election, 66 percent in the first round and 45 per cent in the second (compared to 95 per cent in Czechoslovakia). Szelényi et al. (1996) argue that this low turnout should be interpreted as a 'protest vote' by a social democratic constituency that had no party to represent its political taste. They present survey data from May 1990, which show that social democratic ideas were quite strong among the population, favouring a clearly intervening role for the state in the economy and labour market and adhering to values like solidarity and equality. For instance, 89 percent of all Hungarians believed that the state should continue its full employment policy, 91 percent wanted to see the continuation of price controls, 81 percent thought that the state should reduce income inequality, and 73 percent thought that the state should provide unemployment benefits (Szelényi et al. 1996: 470-472). However, the only main party representing such ideas were the MSZP, which performed poorly in the elections because of its historical role. Hence, Szelényi et al. claim that the new political elite did not have the same social democratic values as much of the population, an indication of distance between the

[47] Antall was replaced by Péter Boross in 1993 because of health reasons and died in December of that year.

political elite and the population. This claim may be overstretched, since the issues they present were not at the center of the elections, while the low turnout may have had other reasons. Still, their survey data give us a good impression of the values concerning economic, social and labour market issues prevailing among the population, values which indeed were hardly represented by the new government.

The Antall government did somehow try to appeal to these social democratic ideas by practicing a discourse advocating the creation of a 'social market economy'. Not unlike Németh's 'socialist market economy', the 'social market economy' idea seemed to point to a middle way between state-socialism and tough capitalism, to 'capitalism with a human face'. Also, it had a clear ring of German Christian Democracy to it, which indeed was a major source of inspiration for these Hungarian conservatives. The 'social market economy' concept was however never really defined, although it was given some content by Antall claiming to reject 'shock therapy' and to favour a 'gradual' reform strategy. In fact, the first post-socialist government did not have a clear overall reform strategy and followed a variety of approaches in different policy areas, some of them gradual and others not at all.

After a period of ad-hoc policy making, in March 1991 the government announced its *four-year economic policy action plan.* In terms of economic policy, it largely followed the lead of then dominant neo-liberal discourse. It prioritised macro-economic stabilisation and the reduction of inflation. This, combined with liberalisation of prices and trade, and privatisation was conceived as the road to Western-style capitalism. It followed restrictive monetary and fiscal policy, rapidly liberalised prices, opened up the domestic market for foreign competition, and promoted privatisation. Price and trade liberalisation were basically completed by 1991, while privatisation in all its different forms was a clear priority of the Antall government. Also, it instituted a tough bankruptcy law in January 1992. While this law was possibly designed to speed up processes of 'creative destruction', it left little space for adaptation to the new economic reality and led to the liquidation of a large number of enterprises, including a number of firms that might well have survived the stormy period of change under more relaxed conditions. In addition, because of inter-enterprise debts, bankruptcy in many cases had a trickle down effect, undermining the position of otherwise well-functioning enterprises.

Hence, in 1992 alone, 44.8% of limited liability organisations and 12.8% of state enterprises filed for bankruptcy (Adam 1999: 57).

This combination of liberalisation, privatization, stabilisation and strict bankruptcy regulations had enormous negative effects on production, with GDP falling to around 82 percent of its 1989 level in 1993. This decline in GDP was comparable to that in many other CEE countries. On the labour market, however, effects were much more dramatic in Hungary as it experienced the largest decline in employment in the entire CEE region. In the 1990-1994, bankruptcies, downsizing and rationalisation of (former) state enterprises, combined with limited employment creation in the new private sector resulted in a loss of over 1.7 million jobs, no less than 31 per cent of total employment. Indeed, there was not much gradual about this period of economic reform.

The ensuing economic crisis prompted the government to selectively bail out a number of large enterprises because of their supposed longer-term viability and their importance for local labour markets, as well as a number of banks, spending no less than US$ 3 billion for this purpose (Stark and Bruszt 1998: 151). In addition, by early 1994 the bankruptcy regulations were relaxed to avoid further waves of enterprise closures. Indeed, the negative feedback of labour market developments prompted the government to intervene in particular cases. The role of the state in the economy then became an ambiguous one, fervently trying to institutionalise market competition, but at the same time ignoring the market in specific and arbitrary cases.

Another key characteristic of reform has been Hungary's commitment to fully open itself up for foreign investment and actively promote the inflow of foreign capital, through privatisation as well as greefield investments. Throughout the entire post-socialist period the various governments have considered foreign investment to be the principle instrument to swiftly restructure and modernise the Hungarian economy, and to bring in foreign currency, important since Hungary had built up an enormous foreign debt during the 1980s (some US$ 20 billion), the largest per capita debt in the entire former state-socialist region. Foreign investors have received privileged treatment in the privatisation process, and have throughout the 1990s received important investment incentives, in particular in the form of tax exemptions. This has made foreign investment the main economic policy tool of all three post-socialist governments, no matter their

political persuasion (Neumann 2000). And indeed, the per capita inflow of foreign capital was by far the highest in Hungary in the first half on the 1990 in comparison with the rest of the former state-socialist countries and remained relatively high later in the decade.

Finally, the Antall government, just like the following post-1989 governments, gave ultimate priority to accession to the European Union, the '*telos* of transition' (Orenstein 1998: 480) and for Hungary '... the legitimacy of the transition itself depends on the success of EU accession (Andor 2000: 2).' EU membership was seen as the final step in breaking with the state-socialist past and in joining the modern democratic-capitalist world. Additionally, it is expected to bring direct economic benefits coming from increased trade and exchange of knowledge and technology with western Europe or from the receipt of, for example, structural funds. Already in 1988, Hungary was the first CEE country to sign a trade and co-operation agreement with the then European Community, it was one of the two countries initially covered by the PHARE programme (together with Poland) that initiated in 1990 and it signed an Agreement on Association in late 1991. The Hungarian party concluded this agreement expressly with the intent to prepare for membership in the European Communities through its implementation.[48] Hungary applied for full membership in 1994, setting into motion the accession preparation which would take another 10 years to be completed and would, as will be discussed later, have an important impact on certain elements of labour market regulations and policies, as well as industrial relations practices.

Shaping new labour market institutions

Reluctant neo-corporatism

The Antall government had a large majority in parliament, allowing it to assume an étatist position of centralised decision making with little consideration for alternative interests. And indeed, it made attempts to insulate itself from other interests including managers, unions and the opposition (Bruszt 1995). However, at the same time, only a few months

[48] See: 'Hungarian-EC Agreement on Association', http://www.kum.hu/euint/index_keydoc.html. (seen 25-04-2004).

after the elections it revamped the NCRI, now called the Interest Reconciliation Council (IRC), inviting all six trade union confederations and all nine employers' associations to participate. This not because it normatively favoured neo-corporatist decision-making or the involvement of civil society in policy making, nor because of a conviction that the participation of social partners would facilitate policy making from the point of view of efficiency or access to more information and capabilities. Rather, the government feared social unrest as a result of the upcoming reforms and, since it had hardly any organisational ties to society, it had '...neither the means to know the limits of society's tolerance nor the channels to persuade it to makes those [economic] sacrifices (Stark and Bruszt 1998: 46-47).' In particular it feared that trade unions, the largest civil society organisations, would become the conduit through which discontent would be channelled. Therefore their incorporation into a tripartite council was seen as a means to maintain social peace in exchange for certain concessions in terms of institutional positions or policies, while at the same time legitimising the government's market-oriented reforms. The social partners were generally weak because they had only limited membership (the new unions and most employers' associations) or because their roots in the past regime made them vulnerable (the 'successor' unions). To them, the IRC represented an opportunity to *gain* a legitimate position within the new system and they readily accepted the government's invitation.[49]

The IRC did not have a firm legal basis and received quite broad, but at the same time quite vague and often non-binding competencies: (i) it was entitled to negotiate national agreements covering certain issues like the minimum wage and working conditions; and (ii) it was entitled to be involved in pre-legislative consultation on economic and social issues and in general consultation on issues affecting labour relations and employment relationships (Ladó 1996: 163). It initially proved its use to the government and gained approval by the public, by settling the taxi and lorry drivers blockade in late 1990. Later, in the second half of 1991, the MSZOSZ threatened a national strike in response to the deteriorating living conditions and demanded more

[49] In 1992, a sectoral tripartite forum was established for the reconciliation of the interests of public employees: the Interest Reconciliation Council for Budgetary Institutions (IRCBI). Also, in 1993, the Interest Reconciliation Forum for Civil Servants was set up (IRFCS). However, the IRC remained the only macro-level institution, compared to the sectoral character of the IRCBI and the IRFCS (Ladó 1996: 161).

extensive social measure from the government to cushion the impact of market reforms. Again, it was through the IRC that this strike threat was neutralised. In both cases the government made certain concessions softening the impact of price rises. Both cases also confirmed the expediency of neo-corporatist negotiations in maintaining social peace.

The attitude of the government changed over time, however. Indeed, the Antall government, far from social-democratic ideas, did not share its power with the social partners out of conviction but out of fear. It gradually started to lose its fear of the steadily weakening unions and felt more and more free to ignore them. It particularly opposed the MSZOSZ, which it saw as the last stronghold of the past regime (Tóth 1999: 22; Bruszt 1995). While it was not in the position to abolish the popular IRC altogether, and also saw the use it continued to have, the government started to actively try to weaken trade unions and neutralise them politically, in particular the MSZOSZ (Bruszt 1995). In the meantime the unions became entrenched in an inter-union conflict concerning the redistribution of the assets of the SZOT. The government took sides with the new unions in this conflict and sought to intensify it. In this way, it contributed to the weakening of the MSZOSZ, of the workers' side of the IRC, as well as of the labour movement as such, since the unions dedicated most of their attention to each other. Ultimately, in this way the government undermined the capacity of the IRC to conclude broader agreements and strengthened its hold over the Council.

Market-oriented reforms and social policy for the 'losers'

Table 5.1 shows the frequency with which broad items were discussed in the IRC in 1990-1994. It nicely reflects the role of the IRC in reshaping Hungary's labour market regime and the positions of the actors involved. The single most important item discussed was economic policy, where the social partners were formally consulted on government policy. Because of the consultative nature of this part of the IRC activity and because the discussions large concerned detailed government policy proposals instead of policy alternatives, the impact of the Council, i.e. of the social partners, on economic policy was marginal and had a high take-it-or-leave-it character (Héthy 1995; Ladó 1996). The lack of influence on economic issues was in particular to the detriment of the weak and

fragmented employers' associations since they prioritised economic policy items like taxation and subsidies for tripartite discussion. The IRC also addressed individual issues rather than comprehensive packages, and while there were negotiations aimed at reaching a Social Pact, they failed (*ibid.*).

Table 5.1: Main issues discussed by the IRC, August 1990-end 1994

Main categories of issues	Number of agenda items
Economic consultation (budget, privatisation, compensation, etc.)	52
Social and Economic Pact negotiations	3
Social policy (incl. the social security reform)	30
Wage determination, incomes policy and issues related to the employment relationship (incl. Negotiations on the Labour Code)	32
Labour safety	1
Employment policy	15
Training and retraining	1
Issues related to trade unions (incl. elections for works' councils, trade union rights, etc.)	11
Internal affairs of the IRC	6
Total	151

Source: Ladó 1996: 170, Table 5.

The second most important issues on the IRC agenda were social policy as well as wage determination and the employment relationship. This echoes the very intentions with which the Council was established by the government, as well as the position of the unions. The unions did not really oppose the establishing of a largely market-driven economy, even if such reforms had clearly negative effects on workers, but favoured a more comprehensive 'social safety net', to soften its impact. This was already the issue at stake when the MSZOSZ threatened a national strike in 1991. Indeed, in a clear example of how ideas can define interests, trade unions perceived increased market governance as in the interest of workers, as long as the 'losers' would have a safety net to fall back on when unemployed.

The unions were also seeking institutional reforms that would allow them to become a key player in this market economy, i.e. that allowed for collective bargaining at national, sectoral and decentralised level. On these issues, the IRC played a more decisive role, in particular concerning wage policy and legislative innovation. Before 1989, a tax-based income policy imposed a punitive tax on enterprises when wages rose above a predefined level. This policy was phased out between 1989 and 1992, opening the way to

wage bargaining, except for the budgetary sector, where wage tariffs are set by law.[50] Centralised wage control was then replaced by tripartite negotiations in the IRC which set the minimum wage and produced recommendation on wage increases as guidelines for lower-level bargaining. However, with the importance attached to inflation control, wage restraint remained high on the government's agenda and initially it threatened a re-introduction of taxes on wage increases in case the IRC would not manage to control wages effectively (Berki and Ladó 1998:186), indirectly restricting wage bargaining.

Wages and social policy were treated as a sensitive issues in the IRC, not unlike in the pre-1989 period, and the government took a rather cautious position in this respect. On the one hand, from a macro-economic policy perspective it sought wage restraint. On the other, fearing social unrest, it did not want wages to fall too far behind inflation. As a result, the IRC set the conditions for average real wages to decline gradually in the 1990-1993 period to about 85 percent of their 1989 level. This did have an important negative impact on per capita incomes. At the same time, this decline was much more modest than that in many other CEE countries including Czechoslovakia. In early 1994, wage decline was temporarily interrupted, fuelled by a substantial increases in public sector wages, a measure closely related to the upcoming elections (ILO-CEET 1997). Also concerning social policy the government was reluctant to implement too drastic reforms, fearing extensive income losses. According to Stark and Bruszt (1998), this fear was similar to the 'fear of society' of the Kádár regime and was by the government's lack of knowledge of the 'limits of society'. Interesting is however that income protection efforts largely ignored the protection or more comprehensive promotion of employment as an instrument.

Industrial relations reform: great expectations attached to collective bargaining

The IRC also played an important role in redefining the legal framework for industrial relations as well as for the individual employment relationship, incorporated into the newly adopted Labour Code of 1992. As far as industrial relations were concerned, the

[50] See the Law on Civil Servants (Act XXIII of 1992) and the Law on Public Employees (ACT XXXIII of 1992).

government, clearly influenced by the German model, proposed an industrial relations system made up of (Tóth 1999: 23):

- works councils at enterprise level, having the power to conclude workplace level agreements regulating the terms and conditions of employment and consulting with the employer on a broad range of issues;
- union branches at company level which would only continue to represent their members in cases of individual grievances;
- trade unions concluding multi-employer agreements at sectoral or regional level.

Clearly, the government envisaged an economy regulated to an important extent through collective agreements, at the workplace level but even more at the sectoral level, and a minor role for the state in wage setting. However, the social partners did have a real say in the discussion of this proposal and it was substantially modified through a series of compromises, following from the unions' demand to maintain their enterprise level bargaining rights, and from employers' attempts to set a threshold of representation which unions must satisfy to exercise their rights (Prugberger and Ploetz 1992, quoted in Tóth 1999). The system effectively established by the Labour Code also existed of three channels of representation (Tóth 1999; Prugberger 1998):

- enterprise works councils, consultative bodies equipped with only very limited co-decision rights and having a minor role in the enterprise;
- workplace level unions entitled to conclude workplace collective agreements;[51]
- multi-employer collective bargaining combined with the possibility of extension, by the government, of collective agreements to non-participating enterprises in the same industry.[52]

In addition, the Code provides for interest representation at the national level through the IRC, which got the right to set the minimum wage, as well as e.g. national holidays, rules for collective dismissals for economic reasons and maximum daily working hours.

[51] The right to collective bargaining is however linked to the works council elections. A union or groups of unions obtaining more than 50 percent of the votes at these elections enjoy automatic bargaining rights.
[52] Industrial relations for civil servants and public employees are regulated in the in the Law on Civil Servants (Act XXIII of 1992) and the Law on Public Employees (ACT XXXIII of 1992). Civil servants do not have a right to collective bargaining. The position of employees in the budgetary sector is an in-between position, they can conclude collective agreements but only within the framework set by law. Also, both categories have their own central interest reconciliation forum.

Indeed, the vision of a pivotal role for collective bargaining at all levels was broadly shared.

The employment relationship: minimum standards and collective bargaining

Apart from re-regulating industrial relations, the Labour Code redefined the legal framework which regulates the employment relationship.[53] The Code regulates the individual relationship between employer and employees, including regulations on dismissals, working time, working conditions, types of contract, protective regulations for specific categories of employees (union representatives, pregnant women, children, etc.). The Labour Code established minimum standards; it leaves it up to the individual or collective contractual partners to determine actual working conditions. In principle such contracts may only deviate from the legally defined standards to the favour of employees, however, there are some exceptions to this rule where collective agreements can actually set standards lower than those of the Labour Code. In comparative perspective, compared with Western countries, the protection the Labour Code gives to the individual employee is of a medium level, higher than in the strongly market-oriented countries like the UK and US, but lower than in the more protective countries like Sweden. A large difference with these countries is however that in Hungary the application of labour legislation is rather limited, because of the weak position of trade unions but also because of the extensive informal sector, making up a much large share of employment than in Western countries and also than in the Czech Republic.[54] This is a major example of a governance failure.

The abolishing of central wage control, the institutionalisation of the new three-channel industrial relations system, as well as the new legal framework for the individual employment relationship, based upon the definition of minimum instead of absolute conditions, opened the way for collective bargaining at all levels of the economy. In spite of this, however, as will be further discussed in chapter 7, at the sectoral level collective

[53] For civil servants and public employees this was done in the Law on Civil Servants (Act XXIII of 1992) and the Law on Public Employees (ACT XXXIII of 1992).
[54] See chapter 7 for a detailed discussion of the labour code and chapter 8 for a detailed discussion of the structure of the labour market.

bargaining has never been important. With the exception of 1992 when sectoral agreements covered over 40 percent of employees in the competitive sector, the coverage rate has hovered between 5 and 16 percent (Nacsa and Neumann 2001). Hence, since the early 1990s, the Hungarian collective bargaining system has been a decentralised one in which enterprise agreements dominate and in which multi-employer and national-level bargaining have been only of secondary importance (Neumann 2000; Tóth 1997). Employers were often not interested nor had the institutional capabilities to conclude sectoral agreements. The coverage of enterprise agreements can be estimated to have been around 35 percent during the 1990s.

Unions spent much of their energy on fighting each other and on national politics, i.e. on influencing the state. They were unable to strengthen their position at the enterprise level. Also, the 'old' unions steadily lost membership while the 'new' unions never managed to get many members. In addition, many employers, especially in the small enterprise sector and in foreign-owned companies discouraged union activity and declined to conclude collective agreements. Finally, as will be discussed in chapter 7, many collective agreements did little more than repeating the stipulations of the Labour Code and many included regulations unfavourable to the employees. Hence, where the institutional framework allowed for extensive collective bargaining, the actors within the industrial relation system were often not able or willing to play out the institutional script. As a consequence, the actual wages and working conditions of employees were largely dependent on the minimum regulations of the labour code and individual bargaining, while, as mentioned before, a substantial number of employees works under informal conditions, lacking legal protection. Hence, the labour market became largely regulated by the market, for some within a context of legal minimum standards, for others not.

Employment policy: state retrenchment in favour of the market

The subject receiving comparatively little attention in the IRC was employment policy, treated as an issue of minor importance. Continuing and strengthening the view that had emerged among the Hungarian elites in the last decade or so preceding the fall of state socialism, the government considered aggregate employment strictly an outcome of

market processes and did not see a role for itself nor for the social partners in this respect. In the early 1990s this view was hardly contested by the social partners. For example, when the MSZOSZ threatened national strikes in 1991, employment policy was not prominent among its demands. The objective of full employment was deemed a relic from the past and in the early 1990s there was a quite genuine belief among policy makers in the 'power of the market'. Expectations were that employment declines, anyway considered as inevitable, would be contracted and compensated for quickly by large numbers of new jobs emerging in the private sector. This view was reflected in the fact that employment and unemployment forecasts were invariably far too optimistic. In addition, for several years employment matters were considered the exclusive competency and responsibility of the Ministry of Labour, which, even if it would have wanted, had little means to address the mounting employment problems, which were primarily the outcome of demand deficiency (Frey 1997; ILO-CEET 1997).

The major piece of legislation reflecting the view of the government was Act IV on Employment Promotion and Provision for the Unemployed (or: the Employment Act), promulgated in February 1991. Within the context of the right of all to free choice of employment and profession, laid down in the Constitution, this Act aimed to facilitate the exercise of this right, easing unemployment strains and making provisions for unemployed people. Firstly, it established the organisational framework for employment policy. It put the Ministry of Labour in charge of the country's employment policy and charged it with taking part in the process of labour conciliation. In addition, building on the existing network of employment offices, the Act established the nation-wide Labour Market Organisation, consisting of the National Labour Centre and decentralised Labour Centres, charged with the execution of active and passive labour market policies. Finally, it established the tripartite Labour Market Committee (LMC) and the National Training Council (NTC) to coordinate interests in employment and training. The LMC was to determine the main principles of utilisation of the Employment Fund and the Solidarity Fund, [55] except for those concerning the payment of benefits. This central body was

[55] The Solidarity Fund of the Unemployed was an unemployment insurance fund constituted by compulsory contributions from employers and workers and supposed to cover expenditures unemployment benefits but also early retirement programmes, certain types of training as well as the running costs of the Labour Market Organisation. These expenditures were thus separated from the state budget. The other was the

complemented by county-level Labour Market Councils, consisting of employers', workers' and local government representatives and responsible for the utilisation of the decentralised portions of the Solidarity Fund and the Employment Fund. In this way, the Act decentralised the labour market budget, also in view of the geographical heterogeneity of labour market problems and the existence of crisis regions. It gave unions and employers institutional positions through which they participated in the design and implementation of labour market policy. In addition to this sectoral and decentralised neo-corporatism, in 1993, unions and employers were assigned important roles in the management of the health and pension funds. Through these channels, the social partners thus participated in the decision-making concerning a sizeable part of the state budget (Tóth 2001).

The Act also introduced an unemployment insurance scheme financed from employers' and employee contributions, with a benefit period of maximum two years and a benefit rate starting at 70% of the previous wage, reflecting the optimistic expectations on how the labour market would develop.[56] It also institutionalised a school-leavers benefit of maximum 6 months and at the level of 75 per cent of the minimum wage. However, already in 1992, the difficulties on the labour market, in particular growing long-term unemployment, combined with the fear of income decline, prompted the government to introduce additional means-tested unemployment assistance for those who's unemployment insurance benefit expires. At the same time, in view of mounting costs, over the years the unemployment benefit criteria were adjusted in several occasions, mostly tightening the level of benefits, the duration of benefits and eligibility conditions.

Another major task of the Employment Act is that it sets out a series of active labour market policies the labour market organizations can choose to implement, varying from training of the unemployed, to support to unemployed persons in becoming entrepreneur, employment subsidies or compensation for early retirement. It states that it provides for labour market services and job assistance activities aimed at the '...

Employment Fund, financed from the state budget and privatisation proceeds, and aimed to finance active labour market policies.

prevention, handling and resolution of employment-related crisis situations, and the prevention and reduction – as well as the mitigation of the detrimental consequences – of unemployment.'[57] Many of such policies had already been operative since the early 1980s (Sziracky 1993; Frey 1997). Also, the Act states that '[T]he creation of new jobs, the prevention of unemployment, and the reduction of the length of unemployment shall be promoted by means outside the scope of employment policy (e.g. by tax incentives, by the appropriation of special funds allocated for regional development and the creation of new jobs, and by the co-ordination of the educational system and the employment policy).'[58] Indeed, employment policy was narrowed down to the management of unemployment and to some extent income protection, while employment objectives had only a marginal place in labour market policy and in economic policy as a whole (Frey 1997: 110).

It was only after the dramatic fall of aggregate employment by about 1.5 million jobs in 1990-1992 that, by late 1992, the IRC requested the government to prepare a comprehensive employment strategy. This strategy was presented in March 1993 and although it did try to go beyond the narrow interpretation of employment policy it maintained its strong market focus: 'Even though the state takes a significant role in lessening labour market tensions, we have to make the people realize, that there is no such thing as full employment in a market economy, since it could only be achieved via a massive direct and administrative state intervention, which is in total contradiction to the basic principle of a market economy, thus irreconcilable with its functioning (quoted in Frey 1994: 12).'

Some adaptations were made to general economic policy as well as employment policy in late 1993 and early 1994, with the aim of stimulating economic growth and employment creation. The former included the softening of the bankruptcy law, reduction of the profit tax and certain investment incentives. As to the latter, employers were encouraged to hire unemployed persons with an entitlement to a 70 percent reduction of the social insurance contribution, with a duration of maximum 12 months, when hiring

[56] The first unemployment-related income assistance scheme dates back to 1986, concerning cases of unemployment following from enterprise restructuring. In 1989, a temporary unemployment benefit scheme, financed from the state budget, was introduced.
[57] Act IV of 1991, section 5, subsection 1.

persons that had been registered as unemployed for at least nine months and had been receiving unemployment benefits for (part of) this period (Frey 1994). Still, there was little new to the government's strategy. Even though it recognised that employment was collapsing and unemployment was likely to increase rapidly during the coming years, employment policy remained marginal.

International actors

As far as international actors are concerned, under the first government their role in the shaping of the new labour market policy regime was first of all an indirect one, through their influence on broader economic and social policy making, which then had an indeed enormous impact on the labour market. As discussed in chapter 3, the IMF played a key role in promoting the global market discourse, which undoubtedly had an influence on the ideas of local actors, although in an indirect way. Also, adhering to the line of the IMF was broadly considered to strengthen the confidence of foreign investors, a top priority for the government.

More directly, both the Hungarian government and the IMF did not show any interest in renegotiating the country's large foreign debt inherited from the socialist era to relieve the burden of debt payments, as was done for example in Poland. Hence, debt services seriously conditioned the financial moving space of the government. To deal with its financial difficulties, the Hungarian government concluded four major agreements with the IMF in the 1990-1994 period, together amounting to 1839.2 million SDR (Nagy 2003: 47, table 2.7).[59] These agreements were subject to IMF conditionality, i.e. included a set of targets to be achieved and reforms to be implemented. These mainly concerned fiscal and budgetary targets and reforms, but also reform of social security, the pension system or the laws on civil servants (Csaba 1995). However, the effective influence of the IMF on policy making should also not be overstated, because the two major agreements made in this period were cancelled by the IMF because Hungary did not meet the performance criteria in terms of fiscal results and budgetary performance

[58] Act IV of 1991, section 5, subsection 2.
[59] SDR=Special Drawing Rights, the IMF-created international reserve asset and unit of account, based on a basket of currencies.

(Nagy 2003; Csaba 1995). While the government did adopt a series of reforms in the direction the IMF desired, because of a number of reasons, including its 'fear of society' and the strongly falling fiscal revenues, it did not reach the targets. Indeed, while the IMF played a very important role in setting the framework for reform, it seems the influence on the more precise design of policies was less comprehensive.

The EU (then still EC) was mainly important as a key point of reference to which institutional reform should be compatible. This originated in the consensus on the desirability to become member of the Union, shared by all actors, including trade unions who saw accession as a way to strengthen workers' protection and trade union rights (Ivány Czugler 2002). In institutional terms, the earlier-mentioned Association Agreement concluded in 1991 mainly dealt with the liberalisation of trade and capital flows and although it was supposed to deal with the freedom of movement of labour as well, it did not provide for anything substantial on the issue: 'In relation to the *movement of labour*, the Agreement on Association envisages the improvement of the employment and social conditions of those legally employed abroad, and also enables the transfer of pensions. According to the Agreement, bilateral agreements will have to specify the number of employees of the partner country for whom the individual Member States of the EC and Hungary will permit employment. (The Hungarian party was unable to obtain any specific commitments from the Member States in spite of its most resolute endeavours.).' [60]

5.3 Czech Republic 1990-1992: towards social liberalism?

Economic and social reform: blending neo-liberalism and social-democracy

In June 1990, the first post-socialist elections were held in Czechoslovakia. They brought victory to the Czech Civic Forum (OF) and the Slovak Public Against Violence (VPN) who received the lion share of the votes for the House of Nations (50 per cent and 37 per cent respectively) and for the House of the People (53 per cent and 33 per cent respectively), the two bodies of the Federal Assembly. They also became the strongest

political forces in the two Republics, especially the OF which got 53.15 per cent of the Czech votes. As discussed earlier, both were umbrella movements uniting a broad spectrum of organisations and individuals of quite diverse political views and policy preferences. Also among the population at large there were widely differing views on the direction post-socialist change should take. Public and elite preferences on these issues however hardly played a role in the OF-dominated elections of 1990; the elections were more than anything a referendum posing continuity and change as the two alternatives, without giving clear content to the type and direction of change. Obviously, this result gave the OF and VPN full control of parliament and government for the 1990-1992 period (the initial elections, contrary to Hungary, concerned only a two-year period). In the Czech part of the country, the Communist Party became the second biggest party with 13.5 percent of the votes.[61]

The heterogeneous and recently-established OF obviously lacked a clear economic and social policy profile. Roughly, it could be argued that the OF was divided into two groups. One consisted of many (but certainly not all) of the former technocrats led by Klaus, finance minister since December 1989. An admirer of Thatcher and Friedman, Klaus rhetorically championed free market capitalism and advocated a 'market economy without adjectives'. He argued for rapid and profound reform, often labeled 'shock therapy', to establish the proper conditions in which the market could do its work, i.e. rapid stabilization, liberalization and privatization, and a generalized withdrawal of the state from the economy. The technocrats (many of them former party members) pictured themselves as economic experts and favoured the insulation of decision making on reform policy from society, arguing that reforms were too complex and ambitious to be dealt with by non-experts and that popular participation would only stall them and water them down (Leff 1997).

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[60] Hungarian-EC Agreement on Association, http://www.kum.hu/euint/index_keydoc.html.

[61] Contrary to most other countries in Central and Eastern Europe, the Czech Communist Party did not reform itself substantially and continued as the orthodox communist party. This does not mean however that it did not change its course. However, reforms remained limited compared to the enormity of the changes in the political and economic context. One of the results has been that many reformist Czech communists left the party. This outflow of reformists then further cemented the party's orthodoxy. The Communist Party has played only a secondary role in post-1989 politics and all other parties have consistently refused any co-operation with the communists; still the party has proven to have a fairly stable and not unimportant electorate, providing them with between 10-14 per cent of the votes in every post-1989 election (Grzymala-Busse 1998).

The other group was made up first of all of many of the former dissidents led by Havel, but also included the new Prime Minister Marian Calfa, Minister of Labour and Social Affairs Petr Miller and economists like Komárek. This wing of OF argued that Klaus's approach was a textbook approach based on abstract economic models, that the Czech(oslovak) conditions did not call for shock therapy, that there was no need for restrictive fiscal and monetary policy at that moment and that import liberalisation was premature (Dangerfield 1997: 443). They advocated a much more gradual introduction of market forces, the active pursuit of economic restructuring and the temporary protection of certain sectors for this aim (*ibid.*). Klaus would dismiss his critics as revisionists or 'old boys' whose ideas were rooted in Prague Spring 'socialism-with-a-human-face' thinking and thus in the discredited Marxist tradition (Klaus and Ježek 1991: 31). The Scenario of Economic Reform submitted to the Czech and Slovak Federal Assembly in September 1990 and implemented as of January 1991, contained many of Klaus's proposals. Key elements of this programme were privatisation; a reduction of subsidies and deregulation of prices; internal convertibility of the koruna; a restrictive monetary policy; a reorientation of external economic relations; and institutional changes to simplify the economic ministries and planning apparatus and to increase the responsibility of enterprise management (Rusnok and Fassman 1998; Wolchik 1991).

Still, the intra-OF opposition to Klaus was initially a powerful counterweight in the government and managed to influence both the extent and speed of reforms, in particular of employment and social policy. The Scenario of Economic Reform was complemented by a Scenario of Social Reform, which represented the more social-democratic orientation of the former dissidents and likeminded members of the OF (see below). The former dissidents also made a successful effort to discuss reforms with interest groups like the trade unions and enterprise managers to gain their acceptance. The resulting reform programme was very much a compromise between the different factions within the OF, combining neo-liberal macro-economic reform with social-democratic type social and employment policy and leading one commentator to characterise it as 'social liberalism' (Orenstein 2001: 68-72).

In the 1990-1992 period GDP declined rapidly, to 88 percent of its 1989 level. This decline was slower, however, than in Hungary and was also to a much larger extent

than in Hungary caused by declining production in continuing enterprises, and much less by enterprises going bankrupt. Among the reasons for this was that while Klaus and his economists were very much interested in creating capitalist owners through privatization, they were much less interested in the firm institutionalisation of the market, in embedding it in a regulatory framework and in enforcing regulations, including the bankruptcy law of 1991. Also, some forms of state support to enterprises was continued in one way or the other. In addition, as will be discussed below, in the context of the social reform scenario, a number of policies were devised with the clear objective to maintain employment. As a result, where by 1992 in Hungary total employment (in 1990 still virtually the same as in the Czech part of Czechoslovakia) had declined by some 1.5 million jobs, the equivalent in the Czech part of Czechoslovakia was 'only' about half a million jobs. This gap of one million jobs, very significant since we are comparing two countries each with a population of 10 million people, has with some fluctuations continued to exist until today and forms one of the main elements of divergence between the two countries. Also, in broader comparative perspective, the decline of employment in the Czech Republic was among the lowest in the entire CEE region in the post-socialist period, where in Hungary it was the largest.

After the June 1990 elections the various political forces became more and more pronounced within the OF as its members became increasingly dissatisfied with the movement. Klaus's opponents were unhappy with his rapid economic reform programme and his lack of attention to civil society and social justice. Klaus, since October 1990 OF's chairman, and his following were increasingly annoyed with the fact that OF did not want to embrace Klaus's entire reform strategy as a manifesto and argued that the Forum's loose organisation and the prevailing '...ideological indiscipline had blocked decision making and had allowed the ministers to follow personal policies (Innes 1997: 397).' The subsequent formation of right and social liberal factions within the OF spelled the Forum's end, formalised in February 1991 with the transformation of the two blocks into political parties: the social liberal block established the Civic Movement (OH) which retained the core of the dissident movement, while the Klausite camp became the Civic Democratic Party (ODS). Earlier a smaller group of rightists intellectuals had already left the OF and formed the Civic Democratic Alliance (ODA).

An issue on which there was much more agreement was the ultimate goal of entering the European Union. In particular before the split up of the Federation, the idea of the 'return to Europe' and the reclaiming of the country's 'traditional' position in Europe was very much alive and crucial for the Czechoslovak (and Czech) self-definition of identity (Bugge 2000). Indeed, based on its historical, pre-World War II place among Europe's democratic and wealthy countries, the Czechoslovaks considered such a return as 'natural'. Contrary to many other CEE countries, the call for EU membership was characterized by self-confidence and an attitude of strength. In 1991, Czechoslovakia signed the Europe Agreement with the EU, the start of a lengthy and difficult accession process. Already in the early 1990s, each policy decision was placed in the context of the long-term goal of EU membership and the parliament legislated a legal requirement that new economic legislation be reviewed for compatibility with existing EU regulations (Bugge 2000: 9; Leff 1997: 255).

Shaping new labour market institutions

A commitment to neo-corporatism

Like the Antall government in Hungary, the OF and VPN, in spite of a large parliamentary majority, took the initiative to start a neo-corporatist experiment. In October 1990, the federal tripartite Council of Economic and Social Agreement (RHSD) as well as a Czech and a Slovak council were established and the latter continued to function when the Federation fell apart. The declared purpose of the council was 'To develop social dialogue with a view of maintaining social peace, which is a significant prerequisite for a successful transition to a market economy and increased living standards for citizens (Kubínková 1999).' The councils included seven representatives from each side.[62] On the union side six seats went to the ČSKOS (later ČMKOS in the Czech Republic) and one to the Confederation of Arts and Culture (KUK). On the employers' side a variety of organisations represented employers in the state sector,

[62] For detailed analyses of the structure and functioning of tripartism in Czechoslovakia and the Czech Republic, see Potůček 1999; Kubínková 1999 and 2001; Mansfeldová 1995; Myant *et al.* 2000.

management of large firms, new small enterprises and agricultural co-operatives.[63] The agreements reached in the council would not be legally binding but were expected to be enforced by the individual partners in their respective spheres of competence.

There were various motives as well as expectations attached to these new structures by the different actors involved. Firstly, there was a widely shared conviction that the upcoming reform process and the increasing levels of unemployment and poverty that were likely to accompany it, might well result in widespread social unrest. In this context, tripartite co-operation was seen as an instrument to reconcile profound reforms with certain levels of income and employment protection and thus as a mechanism to smoothen social change, diffuse potential conflicts and foster social peace. The establishment of tripartite structures was then a form of 'pre-emptive corporatism' (Myant and Smith 1999: 266). Often reference would be made to the experience of West-European countries like Germany, Austria and the Scandinavian countries (Mansfeldová 1995; Potůček 1999). The former dissidents as well as Calfa and Miller were among the strongest supporters of tripartism. This not only in cognitive terms, i.e. because of its pragmatic usefulness, but also in normative terms, i.e. because of their belief in social organisation and civil society. For them, democracy should go beyond elections and political parties only, including other participatory mechanisms involving a variety of social groups and associations. Tripatism, in their view, could be a positive mechanism of mediation between the state and the people or between politics and society.

For Klaus and his followers, the conception was however strictly cognitive and transient. For them, tripartism was. a temporary structure that would be useful to sit out the first and most dramatic stages of the reforms while sharing the responsibility for these reform and its consequences with the social partners. After a limited period of functioning it could then be dismantled or replaced by bipartite negotiations. Hence, at that moment of time, they accepted tripartism but solely out of pragmatic considerations.

[63] The largest employers' organization created after 1989 is the Confederation of Employers' and Entrepreneurs' Associations which shelters eight individual unions. SMEs are represented by the Association of Entrepreneurs of the Czech Republic. Important is also the Union of Industry and Transport of the Czech Republic, organizing a total of 31 industrial unions and associates 1,600 firms, covering some 80 per cent of manufacturing production. The other important body is the Economic Chamber, which associates about 15,000 firms assumed to produce 80 per cent of GDP. As it is now, the Economic Chamber is not a member of the Tripartite Commission and negotiates directly with the Government; it is reluctant to negotiate with trade union issues other than social conditions (Večernik 2001).

The view of the unions was again different. As one of the few existing social organisations with an extensive membership the unions claimed to represent a large part of society, not only the workers but also the 'losers' of the reform processes, in particular the pensioners. They pushed for tripartism on the one hand to strengthen their own legitimacy towards their (potential) membership and on the other hand as a way to secure real and long-term influence on socio-economic policy. They strived for a permanent structure with broad and clearly formalised competencies. Indeed, it was the unions who argued for the legal validity of all the provisions of tripartite agreements, although without success (Cziria 1995; Myant *et al.* 2000).

The employers' side was much less prominently involved in both the emergence and the functioning of tripartism in first Czechoslovakia and then the Czech Republic (Myant 2000). This is among others due to the heterogeneous nature of employers (large and small; state and private; foreign and domestic; industrial, agricultural and service sector) and the resulting enormous diversity of employers' interests. Also, the various types of employers have different preferences concerning the way to forward their interests and tripartite negotiations is only one of the options (*ibid.*). In addition, they needed more time to get organised and have experienced more organisational tensions. As a result, the employers have been overshadowed by the government and the trade unions in the RHSD and have had only a limited voice in the setting of its agenda.

It would however depend above all on the willingness of the government to participate in a meaningful way and to conclude and honour agreements. In the 1990-1992 period, the attitude of the federal government towards tripartism was positive (indicative was that the government representation on the council would be at the ministerial level), stemming from a mix of pragmatic and more idealistic motives. Apart from maintaining social peace and fostering civil society participation, the government considered it needed support from the social partners to be able to implement the Scenario for Social Reform. This reform strategy was developed in broad lines by the government already before the RHSD was created. It aimed to prevent the growth of unemployment and inflation, as well as their social consequences, '...through active employment policy, active income policy, promotion of social security and establishing a

means-tested social safety net (Tomeš 1994: 142).' Negotiations in the RHSD were then to give content and meaning to the Social Scenario and to create the conditions for its implementation. In this spirit, in his 1991 New Year's Address, Havel underlined the need '...to create promptly, in cooperation with trade unions, a safety net of legislative and administrative measures to forestall the unjust and inhumane consequences of economic reform.'[64]

There was a fair amount of consensus on most of the crucial economic and social reforms between the unions, employers and the government, including on the need for a balance between economic and social reform, as well as on most aspects of industrial relations and the recodification of the role of trade unions. The RHSD would comment on all issues related to long-term economic and social policy, particularly unemployment, living standards and social and working conditions. It also negotiated the content of new legislation. Initially, the scope of the Council's activities was indeed much broader than that of its Hungarian counterpart.

The emergence of a low wage-low unemployment strategy

The crucial role of the RHSD is exemplified by its first major achievement, i.e. the conclusion, in January 1991, of a broad General Agreement, a social pact formalizing a compromise between the three parties on the Council on socio-economic policy. Central to the Agreement was the a low wage-low unemployment strategy (Nešporová and Uldrichová 1997; Orenstein 1996; Birle 1999). This was on the one hand aimed at achieving macro-economic objectives by depressing effective demand and limiting inflation through a fall in real wages (Rusnok et al. 1999). On the other hand, it aimed to avoid extensive employment losses and to regulate a number of aspects of industrial relations. Central wage regulations were put in place, defining a maximum admissible growth of nominal wages and placing sanctions on wage increases beyond this maximum (firms with less than 25 employees were excluded). Public sector wages were also centrally set after negotiations in the Council. To establish a wage bottom, in March 1991 a minimum wage was enacted as part of the Agreement.

[64] President Václav Havel's New Year's Address to the Nation, Prague, January 1, 1991.

The implementation of the Agreement was however not conflict-free, also because the economic decline was deeper than expected. Already in June 1991, the federal government decided it could not entirely fulfill its commitments and that real wages would fall more than agreed. And indeed, in 1991, average net real wages dropped by no less than 26.7 percent. This unexpectedly high fall of real wages prompted the unions to protest against the central wage regulations as of 1992, claiming in addition that they made serious collective bargaining impossible. Indeed, under these circumstances it was the labour movement demanding less state governance and more market and associational governance. Much of private enterprises and joint ventures were then temporary exempted from central wage control in 1992. This created space for a growth in real wages, a trend that would subsequently continue until today, with only a brief interruption in 1998. This compromise formed part of the 1992 General Agreement, showing that the Council, and in particular the unions, indeed had some influence on government policy making. For the rest, however, the 1992 Agreement was less ambitious than the 1991 one, also because the government had clearly set the boundaries of Czechoslovak neo-corporatism. Still, neo-corporatism was important in these first two post-socialist years and the council had a key role to play in redefining the Czech(oslovak) labour market policy regime. In this way, the social partners participated in a meaningful way in the design and implementation of a series of reforms, in particular those related to labour legislation and industrial relations (see below) but to some extent broader socio-economic policy as well.

Full employment still a goal of employment policy

Contrary to the Hungarian case, employment objectives did play an important role in Czechoslovakia: 'From the very beginning employment policy has been conceived as part of an overall economic and social strategy regulating economic and social development, in accord with the policies of transformation adopted. Employment policy influenced the choice of measures and instruments within the state monetary, fiscal, structural and wage policies (Nešporová and Uldrichová 1997: 60).' Full employment, like in the previous state socialist decades, remained a central objective of Czechoslovak employment policy,

even though it now also underlined that employment should be productive and freely-chosen. This contrary to Hungary where employment policy had only a marginal place and the idea of full employment was abandoned. Employment policy had three main pillars: the low wage policy, state intervention in the labour market through active labour market policies and small enterprise and self-employment support, and unemployment benefits.

Central to the attempts to preserve high employment levels were low wages. Klaus saw wage control as well as the devaluation of the koruna, as the two 'cushions' of economic reform, allowing marginal workers to continue to be employed and allowing marginal exporters to continue to export and maintain employment during the period of privatization and restructuring (Orenstein 1996: 177; Rusnok and Fassmann 1998). Hence, the low wage policy was not only a macro-economic instrument to avoid inflation, but also a micro instrument, aimed at increasing competitiveness, safeguarding the position of state enterprises, and protecting employment. The sharp drop in real wages effectively reduced the share of wage costs in GDP from 64% in 1989 to 48% in 1992 (Večernik 2001). This, together with the earlier-mentioned continuation of some forms of state support to enterprises as well as the weak enforcement of the regulatory framework for enterprises, provided enterprise with time for restructuring and reduced incentives for dismissal. In this way, it contributed to maintain the relatively high level of employment and low level of unemployment in Czechoslovakia in comparison with most CEE countries and in particular Hungary.

Another element of the employment strategy was a redefinition of the role of the state in the labour market as well as the package of labour market policies and employment promotion policies it can draw upon. Crucial was the adoption, in 1991, of the Employment Act.[65] The Employment Act confirms the fundamental shift in the role of the state in the labour market. This meant that the state's prime function became to facilitate the functioning of a labour market governed by market processes. Administrative instruments previously used for the provision of employment now apply only to employment for disabled people (see below); for the rest of the population they

[65] Act 1/1991 Coll. of 4 December 1990. The Act was amended 18 times in 1991-2002, however, much of its main body remains intact. Important modifications will be discussed in later sections.

were replaced by (i) economic instruments like tax incentives and subsidies used to support job creation and the improvement of human resources; and (ii) unemployment benefits.

The Employment Act also redefines the rights and obligations of citizens. The right to employment was redefined in a relative way, as 'the right of every citizen willing and able to work and genuinely seeking a job to: (a) assistance in finding suitable employment; (b) retraining which is essential for finding employment; and (c) financial support prior to entering employment and if employment is lost.'[66] Thus, citizens do not anymore have the absolute right to employment but rather the right to support in obtaining employment, to retrain for employment and to financial support during unemployment spells. The Act also rejects the obligation to work and establishes the entitlement to freely choose employment and to perform it anywhere one wants, lifting formal barriers to geographical mobility.

Employment policy as defined by the Act is the competence of the Ministry of Labour and Social Affairs and is implemented by the ministry in co-operation with the network of labour offices established throughout the country. It has three principle aims: the balancing of supply and demand for labour, promoting the productive use of labour, and securing the right to work as outlined above. The Employment Act foresees four types of labour market policies.[67] Firstly, labour offices provide mediation services to registered job seekers and to employers, giving priority to assistance to vulnerable groups. Secondly, the Act emphasises employment-oriented retraining as a means to adapt labour supply to labour demand. Thirdly, the Act provides for the possibility of wage assistance to employers who are temporarily (maximum 6 months) not able to provide work for their employees for the full normal weekly working time because of the changing over to a new production programme. Fourthly, the Act establishes an absolute right to employment in appropriate conditions for disabled persons, to be enforced through administrative means, and establishes a mandatory quota of disabled that employers have to employ.

[66] Employment Act, section 1.
[67] Employment Act, section 21-24.

In practice, the Czech employment promotion policy in 1991-1992 was based on job creation schemes supplemented by public works and vocational training (Nešporová 1999). Job creation programmes included support for so-called 'socially purposeful jobs', i.e. jobs created for unemployed persons, through subsidies on job creation costs, start up costs for self-employed or wage subsidies. They also included 'publicly useful jobs', i.e. temporary jobs in public works for hard-to-place unemployed persons, where the labour offices would take up the wage costs. In 1991, 82,600 jobs were created through these schemes, and in 1992, 122,800 jobs (Nešporová and Uldrichová 1997: 66, table 3.13). In addition, a comprehensive small enterprise promotion scheme was developed, facilitating access to capital and to supporting services. These programmes stimulated the large-scale redeployment of labour to newly developing activities in the period of most intensive structural changes. In most cases this happened after only a short spell of unemployment for workers who had been made redundant or voluntarily left big state enterprises. In 1992 over two-thirds of registered jobseekers, or over 2 percent of total employment, participated in one or the other employment promotion scheme. The clear intention here was not to leave the preservation of jobs and the creation of new jobs only to the market but to give the state a substantial role as well. At the same time, the role of these labour market policies as such should not be overstated since expenditure on labour market policies has been comparatively low in Czechoslovakia and the Czech Republic.[68] Rather, they proved effective only in combination with the other elements of the low wage-low unemployment strategy.

The Employment Act also defines the criteria for the eligibility, amount and duration of unemployment benefits. Except for a benefits for employees dismissed because of restructuring, unemployment benefits did not exist under the state socialist regime. The first comprehensive unemployment scheme was introduced in 1990. It provided unemployment benefits for up to 12 months and amounting to 60 per cent of previous earnings or up to 90 per cent for employees who lost their job because of restructuring of the employing organisation. Also, benefits were accessible for persons entitled to other forms of support like pensions or maternity leave. Employment policy,

[68] As will be further discussed in chapter 7, in international comparison the expenditure on labour market policies as a percentage of GDP was low in Czechoslovakia and remained low in the Czech Republic.

including unemployment benefits, are financed from the state budget. Individuals pay contributions to social security insurance and to employment policy but where these are often financed from specialised funds outside the state budget in other countries, in Czechoslovakia (and later the Czech Republic) this fund is part of the state budget. Unemployment benefits are hence a type of state-funded security, although the contribution to employment policy resembles insurance premiums (Kalenská and Bělina 1998: 17).

The objectives of the unemployment benefit scheme in the early 1990s, later often seen as very generous, were twofold (Nešporová and Uldrichová 1997: 74, fn 1): provide income support to the people that were expected to become unemployed temporarily (like in Hungary the expectation was that newly created employment in the private sector would soon absorb them); and make this new phenomenon of unemployment socially more acceptable. Soon however, in 1991, the criteria for unemployment benefits were tightened, affecting the level of benefits and the eligibility criteria (even though part of the reforms were off set by the 1991 General Agreement which increased the level of unemployment benefits for that year). Even stricter rules came into force in 1992, halving the maximum duration of benefits and defining a maximum level of 1.5 times the minimum subsistence level. In international comparison, the provision of benefits had by then become minimal, in terms of the duration of benefits as well as their replacement level. Considering that unemployment was also very low at that time, the minimal benefit provision can hardly be explained by rapidly rising costs. Rather, it reflects the comparatively low level of total expenditure on labour market policies, including unemployment benefits. This low level of expenditure originates in several factors, including the above-mentioned fact that expenditure comes from an unemployment fund that is part of the state budget, something which makes it interesting for the state not to spend much (Nesporova and Uldrichova 1997: 75, fn 9); an attempt to make unemployment benefits unattractive and unfeasible as an alternative labour market status and, ultimately, to promote an active search for employment or, alternatively, withdrawal from the labour market; an adversity on the side of the Klausites towards labour market policies as such; and the fact that means other than labour market policies were used to influence the functioning of the labour market.

Industrial relations: minimum standards, collective bargaining and weak actors

The 1991 General Agreement and further negotiations within the RHSD also led to a series of institutional innovations in the regulatory framework concerning industrial relations. Freedom of association as well as the right to strike were included in the Czechoslovak Constitution, which sought to bring Czechoslovak law in line with international labour and human rights standards and to strengthen the role of the latter in national legislation (Tomeš and Tkáč 1996: 65; Bělina 1996: 55).[69] Like in the Hungarian case, basic international standards were perceived as highly legitimate and played a key role in redefining the domestic labour market regime. This role is further underlined by the Constitution, which states that ratified international treaties, including the Conventions of the International Labour Organisation, form a direct part of the legal system with a force superior to the laws. Also the role of EU standards has been important and from the beginning of the 1990s national legislation has constantly been checked with EU regulations.

Major innovations were also made in collective and individual labour relations, regulated mainly by the Labour Code.[70] The basis for today's Labour Code is still the first Code passed in 1965 as no completely new Code has yet been adopted. Modification of labour relations has therefore depended on the one hand on amendments to the existing Code and the first major post-socialist amendment came into force in January 1991. On the other hand, a number of specific Acts and Decrees regulating specific subjects have been adopted over the years to complement the Labour Code. Within the context of the tripartite Council the social partners actively participated in the definition of the content of new labour legislation. Legislative changes aimed to redefine the national industrial relations system and to promote three main and closely inter-related goals. One was to make the Labour Code less prescriptive and more protective in terms of working

[69] Article 27 of the Charter of Fundamental Rights and Freedoms. The Charter was adopted in Czechoslovakia in 1991, and adopted by the Czech National Council on December 16, 1992.

[70] The Labour Code is only applicable to civil servants, state prosecutors and armed forces when expressly stated in the Code or other statutory regulations. Home workers fall under the Code, except for overtime supplements, supplements for work on Saturdays and Sundays, compensation in cases of serious personal impediments to work, and provisions on the scheduling of working time.

conditions, moving from absolute to minimum standards. A second objective was to facilitate 'genuine' collective bargaining in which employees and employers would define actual working conditions. Thirdly, many of the formal (but in practice rather empty) co-decision rights of trade unions were abolished altogether or turned into consultative or information rights.

The Act on Collective Bargaining of 1991 regulates the procedural dimension of collective bargaining and of collective disputes, including mediation, arbitration, and strikes and lock-outs. The basic philosophy of the Act was the strengthening of the employee representation role of trade unions as well as a shift of emphasis from the largely administrative regulation of working conditions characteristic for the state socialist era towards collective bargaining. In a context of reduced administrative regulation of working conditions, like in Hungary, collective agreements were to fill the regulatory gap. Collective agreements can only deviate from the law in ways favourable to the employee and supersede stipulations in the employment contract that are less favourable. Regulations also include the possibility of higher level collective agreements and of the extension of collective agreements to non-participating employers.[71]

Contrary to Hungary, no works councils were established and trade unions managed to remain the sole legitimate employee representative bodies throughout the 1990s. Until 2000, two channels of interest representation existed: workplace level unions and multi-employer collective bargaining. These were then complemented by national tripartite negotiations.

The law foresees an active role for trade unions at the enterprise level. In many instances, where present, they are assigned rights and responsibilities, and in many cases it is stated that particular conditions can be further specified in collective agreements, as a rule only to the benefit of the employee. At the same time, apart from collective bargaining rights, their formal powers are limited. Co-decision rights are largely limited to working rules, the cultural and social fund, and the organisation of the inspections of

[71] The law distinguishes between company collective agreements (CCA) concluded between the relevant trade union authority and the employer, and higher level collective agreements (HLCA) concluded between the relevant higher level trade unions and an employers' organisation or organisations representing a larger number of employers. Legislation does not recognise sectoral collective agreements concluded for an entire sector or branch (economic sectors are not defined within Czech legislation). In practice, when there is talk of sector collective agreements in the Czech Republic, it usually refers to HLCAs (Hála et al. 2002).

occupational safety and health protection at work. As Kalenská and Bělina (1998: 157) observe, '...the focal point of the relations between trade union bodies and the employers lies primarily in comments and consultation, the right to information and the right to inspect the observance of labour-law regulations.' Still, the law clearly builds on a conception of an economy in which unions are very much present, and able and willing to act.

There is a discrepancy however between the actors the lawmakers had in mind and the practice in first Czechoslovakia and then the Czech Republic. Unions are generally interested in concluding collective agreements but have been losing in strength. Union membership declined rapidly in the early 1990s, from 84 percent of employees in 1990 to 61 percent in 1992; this trend continued during the rest of the post-socialist period (Hála et al. 2002). Workers became less willing to organise in trade unions and unions started to get huge problems organizing workers in new private enterprises and multinationals, because of problems of legitimacy stemming from their role in the past, but also because of active opposition by employers and managers (*ibid.*).

Indeed, also contradicting the assumptions of the law makers, employers are often not interested in concluding company or higher-level collective agreements. In addition, in the case of higher-level agreements, these cannot be concluded in the public sector because of the absence of a contractual partner (the law does not enable public sector employers to establish employers' associations), while in the private sector employers' association often do not have a mandate from their members to conclude such agreements. Until 1995, another important factor undermining the conclusion of collective agreements were the central wage regulations, which strongly limited the space for wage bargaining.

A difference between Hungary and the Czechoslovakia was that in the early 1990s, in line with the more social-democratic nature of the government, the Czechoslovak government did extend higher-level collective agreements. In 1991, this concerned 119 employers mainly in the metal industry, the chemical industry and mining, and in 1992 it concerned 650 employers including also the construction, textile and food industry, transport, and a number of services (Hála et al 2002: 53, table 5). Hence, in this

way, the government played an important role in setting terms and conditions of employment in a substantial number of enterprises.

Much in line with the Hungarian experience, industrial relations actors were often not able or not willing to act out the institutional script of the labour code foreseeing extensive collective bargaining; and also here the coverage of collective agreements has been declining rapidly ever since the early 1990s, leaving an increasing part of the working population protected only by the regulations included in labour legislation.

The individual employment relationship

Like collective labour relations, also the individual employment relationship was profoundly reshaped in the 1990-1992 period. This process included the revision of the relevant stipulations in the 1965 Labour Code as well as the adoption of other acts like the Act on Wages, Remuneration for Stand-by and Average Earnings of 1992. As compared to the state socialist era, the main direction of these reforms was from prescription to employee protection and from absolute labour standards to minimum standards. Indeed, these changes are closely related to those concerning the role of the state and collective labour relations discussed above. In general, the role of statutory regulations in directly defining working conditions has been downscaled and the space for individual and collective bargaining has been enlarged.[72] Starting from the minimum standards incorporated in the law, such bargaining is supposed to set actual labour standards. Another characteristic of changes in labour law is that they seek to allow employers to respond in a flexible way to changing economic conditions and fortunes and to strengthen productivity and competitiveness, while at the same time they aim to provide some protection to the employees that are negatively affected by such flexibility. As far as wages are concerned, in labour legislation regulations are limited to the definition of a minimum wage by the government; equal pay for men and women, regulated in the Act on Wages, Remuneration for Stand-by and Average Earnings; and wage supplements are set for overtime, shift work, work on holidays, work in arduous and hazardous conditions and work at night. Like in Hungary, protection of individual

[72] A detailed overview of the content of these regulations will be provided in chapter 7.

employees is neither high nor low in comparison with the west. An important difference however is that the application of legal regulations is more widespread than in Hungary, in particular because of the smaller informal sector.

International actors

Czechoslovakia, contrary to Hungary, had basically no relationship with the IMF during the state-socialist era, and it did not inherit a similarly high foreign debt. In the period 1990-1993, the country signed three stand-by agreements with the Fund (two when still Czechoslovakia, one as Czech Republic), together worth around one billion SDR. However, the third agreement was suspended on request of the Czech government, which also engaged in an accelerated repayment of debts. Indeed, the government, encouraged by the economic performance of the first post-socialist years, felt it did not depend much on IMF resources. In terms of policy, the direct influence of the IMF on policy also seems to have been limited, but for very different reasons than in Hungary. Rather than the IMF attempting to impose fiscal and budgetary targets as well as related policies programmes on the country in exchange for financial support, the views of the government (in particular the finance minister Klaus) and the IMF largely coincided and the agreed upon targets were largely achieved (Drábek 1995). What is more, the IMF in the early 1990s presented Czechoslovakia and the Czech Republic as the major success story in CEE.

The IMF, like Klaus, gave high importance to the containment of inflation, and there was agreement on the way to achieve this. This included agreement on the need for central wage control to achieve a real wage decline, as was done in 1991. It was only in the following years, when real wages started to grow faster than productivity, that the IMF started to voice worries about Czech policies. However, by then it could not use conditionality as an instrument anymore since the Czech Republic showed no interest in new agreements.

As far as the EU (then EC) is concerned, like in Hungary, future membership was indeed a goal of paramount importance also in Czechoslovakia and the Czech Republic. However, during the first Czechoslovak government period even less materialized in this

respect than in Hungary. The Association Agreement with the EC was only signed in 1993, after this period. The country also entered the PHARE programme at a later stage than Hungary. Hence, where the EU as a target and a reference was indeed important, there was little interaction during period of the first government that could result in an effective and intentional influence of the EU on domestic policies.

5.4 Conclusions

During the early 1990s, during the extrication from state socialism and particularly under the first governments, in both countries a dramatic re-orientation of labour market institutions took place. The context for this redefinition of labour market institutions was first of all a process of fourth order change. With few exceptions, mainly the Czechoslovak orthodox state socialist elite, there was broad societal consensus in both countries on the rejection of the state socialist system. To the extent that state socialism was indeed accepted before 1989, this represents a profound shift in the basic ideas on how society should look. Instead of reform of certain aspects of state socialism, the idea as such was now abandoned, both on normative grounds, i.e. a rejection of the repressive and elitist nature of state socialism, and cognitive grounds, i.e. the failure of state socialism to achieve the goal of modernization and of catching up with (let alone overtaking) western capitalism. The quest for modernization continued, representing a basic continuity in the view on the goals and purposes of society. However, a fundamental change took place in the ideas on how to achieve it. This shift in ideas, much of which took place well before 1989, was however only allowed to express itself because of closely related shifts in power, both in the international arena (changing role of the Soviet Union) and the national arenas (declining power of state socialist elites), and especially in the case of Hungary also because of a redefinition of interests by part of the state socialist elite, which came to see a private economy as a vehicle to further their personal interests (figure 5.1).

This fourth order change presents a basic similarity between the two cases. However, it does not necessarily indicate convergence: both cases move from some sort of state socialism to some sort of democratic capitalism. And, as discussed earlier, since

democratic capitalism can take many different shapes, fourth order change does not determine the specific character of lower order change. At the lower orders we can observe both similarities and differences between the cases, originating in similarities and differences in ideas, interests, and actor relations. These are partially rooted in the past, partially influenced by the international ideational context.

Figure 5.1 Fourth order change

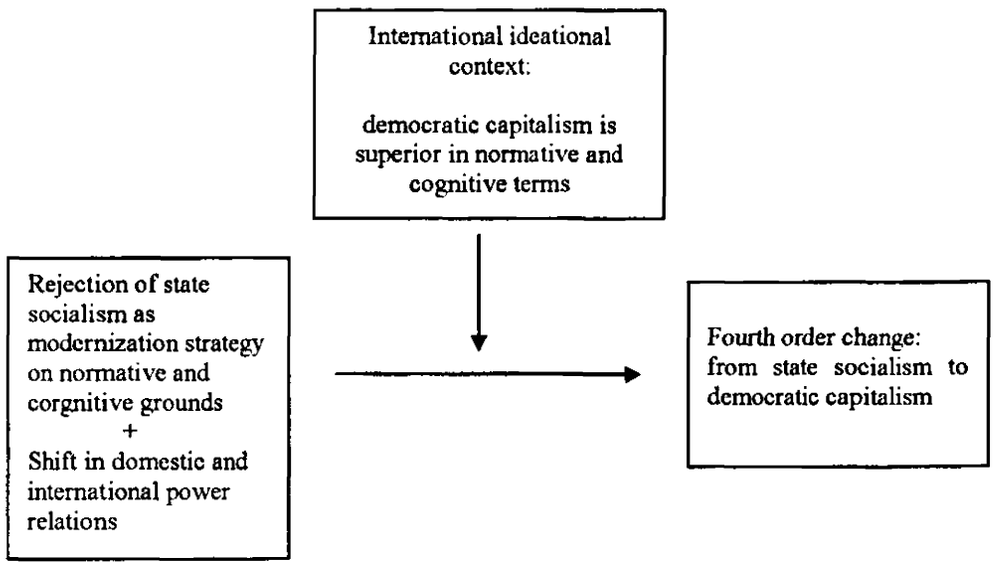

Table 5.2 summarises these the main similarities and differences in ideas and interests, concerning both the broader political economy as well as the labour market. As far as the broader political economy is concerned, in both cases the main economic reforms were postponed until after the first elections as political reforms were considered a precondition to them. However, building on the reforms that had been initiated in the late 1960s and accelerated in the 1980s, already in the period of extrication in Hungary there was a fairly broad consensus among the old and new elites that the new economy should be largely market-driven. Such a consensus did not exist in Czechoslovakia. Dissidents and technocrats contrasted social-democratic and monetarist neo-liberal views, much of which they also had cultivated already during the previous regime. Indeed, in both cases these views were rooted to an important extent in the past and did not simply 'appear' with the toppling of state socialism.

Table 5.2: Ideas and interests, HU and CZ, extrication and the first governments

Hungary	Czechoslovakia
Extrication	
Continued pursuit of modernization, but rejecting state socialism as the normatively or cognitively appropriate way. State socialist elite also sees ways to further their personal interests under capitalism.	Continued pursuit of modernization, but rejecting state socialism as the normatively or cognitively appropriate way. Exception: the state socialist elite still favours state socialism.
Political reforms considered precondition for socio-economic reforms.	Political reforms considered precondition for socio-economic reforms.
Continued consensus on the primacy of the market, already emerged during 1980s.	No consensus on type of capitalism to pursue. Dissidents favour social democratic capitalism, technocrats more monetarist neo-liberal capitalism.
Consensus to bring basic employee and trade union rights in line with international standards.	Consensus to bring basic employee and trade union rights in line with international standards.
First governments	
Consensus on monetarist-neoliberal orientation. Creation and enforcement of market institutions for economy and labour market. Unions support market making but argue for safety net for the losers they claim to represent.	Monetarists technocrats for a 'market economy without adjectives'. Weak institutionalisation of the market and enforcement of regulations. Social democratic dissidents advocate social justice and equality. Unions and employers in between.
Consensus on goal of EU membership.	Consensus on goal of EU membership.
Government aims to insulate the state from interest groups, to facilitate reforms, but accepts neo-corporatism on cognitive grounds.	Dissidents advocate neo-corporatism on normative grounds. Technocrats accept neo-corporatism only temporarily and on cognitive grounds.
Unions and employers support neo-corporatism on normative and cognitive grounds.	Unions and employers support neo-corporatism on normative and cognitive grounds.
Consensus on minimum legal standards to regulate employment relationship and freedom for collective bargaining. Unions favour widespread collectively bargaining and extension of agreements; most employers have little interest in collective bargaining. State does not interfere nor extend.	Consensus on minimum legal standards regulating employment relationship and freedom for collective bargaining. Unions and dissidents favour widespread collective bargaining and the extension of agreements. Most employers have little interest in collective bargaining. Technocrats want state not to interfere nor to extend.
Full employment already abandoned under previous regime; employment dependent on market; management of unemployment.	Dissidents see full employment as central objective. These also see central role for employment policy. Technocrats agree to an important extent.
Political elites for centralised wage setting, unions for collective bargaining on wages.	Technocrats favoured central wage regulations, unions for collective bargaining on wages.
International standards references for reforms.	International standards references for reforms.
IMF propagates structural adjustment-type reforms as the right way to capitalism.	IMF propagates structural adjustment-type reforms as the right way to capitalism.

The Hungarian market view continued to dominate under the first government. Employers and unions accepted the market discourse, although the latter also emphasized the need for a social safety net. This does not mean however that the Hungarian elites considered that reforms could always have a strict market character. 'Fear of society', haunting the Hungarian elites since 1956, made them wary of social unrest and prevented them from too drastic cuts in wages and social provisions. Similarly, the first Hungarian

government on the one hand considered that insulating the state from interest groups would allow for more rapid market reform; on the other hand, convinced of its usefulness in guaranteeing social peace and legitimizing reforms, it reluctantly supported neo-corporatist arrangements. Unions and employers argued for neo-corporatism on both normative grounds – to give main interest groups a place within the democratic process – and on cognitive grounds – as a way to further the interests of their members and to strengthen their own legitimacy.

In Czechoslovakia the contrast between dissidents and technocrats continued to prevail under the first government. The former emphasized social justice, equality and a balance between social and economic goals. The latter argued for a 'market economy without adjectives', although they had little interest in the institutionalization of this market. They also disagreed on the issue of neo-corporatism: the dissidents favoured participation of social partners on normative grounds, seeing it as a positive means of mediation between state and society and as part of advanced conceptions of democracy. The technocrats, not unlike the Hungarian elites, accepted neo-corporatism on cognitive grounds, i.e. as a temporary means to preserve social peace and legitimate reforms, but strongly rejected it on normative grounds, arguing unions and employers were not elected and thus had no place in political decision making processes. Unions were closer to the dissidents and employers to the technocrats on the issue of broad economic policy, while, like their Hungarian counterparts, they both favoured neo-corporatist arrangements on normative and cognitive grounds. Consensus did exist in both countries concerning the goal of future EU membership, seen as an entry into the core of Europe and also as an economically beneficial move. Also equal for the two cases was the IMF's insistance on structural adjustment type of reforms as the proper way to create capitalism.

Turning to the labour market institutions, as part of the process of post-socialist transformation, major innovations took place. This first of all because the normative and cognitive frames orienting policy making and institution building were altered fundamentally as the dominant ideas on what is legitimate and 'what works' were profoundly modified. This process of third-level change was heavily influenced by the international ideational context. Basic capitalist principles as well as international standards like International Human Rights and the basic International Labour Standards

were seen as expressing some of the fundamental values and operating principles of successful democratic capitalism and were incorporated into the domestic context as points of departure and as a regulatory bottom line.

In this way, consensus prevailed on these international standards, including issues like the basic characteristics of the employment relation, freedom of organization, etc. Another major example is that in both cases there was a consensus on the fact that the regulation of the labour market should be through minimum instead of absolute standards, combined with the possibility to define actual working conditions through collective bargaining and individual contracts.

However, this does not mean all actors favoured collective bargaining, even though the right to it was not contested. Most employers had little interest in collective bargaining, in particular in the new SMEs and FDI companies, and considered individualised employment relations as more in their interest. Also the Czechoslovak technocrats and part of the Hungarian political elite contested the usefulness of collective bargaining, seen as contradicting the market and individual freedom. For the same reasons, they object against the extension of collective agreements by the state. On the contrary, unions and the Czechoslovak dissidents favour such extensions as ways to strengthen solidarity and equality, and to forward workers' interests.

Also, since international standards only deal with very basic rights and obligations, there were of course disagreements on the exact nature of labour market regulation. The Czechoslovak technocrats and most employers favoured minimal standards, and unions and dissidents were for more extensive regulations. However, the former, reflecting on the state of affairs in the EU in general and Germany in particular, never insisted on a completely deregulated labour market. The unions perceived collective bargaining as much more of interest to their members than stricter legal protection and refrained from pushing too much for further regulation.

In terms of employment policy, in Hungary the idea of full employment was already abandoned under the previous regime. After 1989 there was largely a consensus on the fact that the level of employment depended on the market. Employment policy was considered of marginal importance and seen mainly as the management of unemployment. In Czechoslovakia the situation was different. Full employment had been

at the core of the previous regime until the very end and after 1989 it continued to be a priority. This was especially true for the dissidents, but to an important extent as well for the technocrats. Employment policy was therefore seen as a core policy area.

As far as wage policy was concerned, the situation sometimes contradicted other ideas quite strongly. The strongly market-oriented technocrats in Czechoslovakia wanted the state to control wages, in function of macro-economic objectives (and employment objectives as well). Also the Hungarian political elites insisted on some sort of centralized wage regulation, first by the state and later through tripartite negotiations. Here we see that monetarism trumps the market. Indeed, where wages were concerned, the market was deemed the wrong coordination mechanism, especially because it was expected that if wages were left to the market they would rise more than under central control. Precisely for this reasons, union saw it in the interest of their members to insist on the deregulation of wages and to leave wage formation to collective bargaining.

As this summary shows us, in each case, some ideas and interests were shared by all (or at least the large majority of) post-socialist actors, which then automatically became the dominant ideas and interests informing institutional change. However, also in each case, concerning other issues, different normative and cognitive conceptions as well as interests were contrasted, without the actors coming closer to each other. To understand in such cases what the dominant ideas and interests were that informed institution building and policy making, we need to consider the relations between the actors (Table 5.3).

In both cases the governments were the dominant actor in the process of reshaping the regime. In Hungary the government was a fairly homogeneous actor, informed by a conviction that stabilization is necessary and more market is better, while suffering from a 'fear of society'. In Czechoslovakia, the government was a very heterogeneous actor, with two main factions: the technocrats and the dissidents. They had a common goal: the demise of the state socialist regime and constructing the basic structures for democratic capitalism. They had very different ideas, however, on what shape this capitalist society should take. Since non of the two factions clearly dominated the other, government policy was shaped by two opposite views, representing elements of both of them. The tension

between the two blocks motivated the members of OF to establish more homogeneous political parties in the run up to the 1992 elections.

Table 5.3: Actor relations, HU and CZ, extrication and the first governments

Hungary	Czech Republic
Extrication	
Reform state socialism, state socialist corporatism .	Traditional state socialism until the fall of the regime.
Negotiated regime change.	Regime toppled after sudden mass protest
Emergence of spectrum of political parties already before Roundtable Talks.	Two umbrella organisations united against state socialism, but major internal differences.
Fragmentation of trade union movement.	Unity of trade union in one major confederation.
First governments	
Government wants to insulate itself from other actors but also has 'fear of society'.	Government of umbrella movements, wide variety of ideas and interests. Rising internal conflicts.
Further consolidation of political parties.	Movements gradually split into political parties.
Weak and fragmented employers organisations.	Weak and fragmented employers organisations.
Employers in SMEs and FDI companies often hostile to trade unions.	Employers in SMEs and FDI companies often hostile to trade unions.
Strongly divided and rapidly weakening union confederations.	Most unions within one confederation. Unions initially strong, but started to rapidly weaken.
State-dominated tripartism, exchanging social peace and legitimisation of market reforms for institutional positions and legitimacy for unions and employers.	State main actor in tripartite arrangements, but also the trade unions were an influential actor. Important sections of the government were seeking consensus-based cooperation with social partners.
Little influence of social partners on broad socio-economic reform, some on labour legislation and implementation of labour market policies.	Neo-corporatism provided unions with some influence on broader socio-economic policy and a strong influence on labour issues.
Large foreign debt, the IMF has powerful position towards government and (selected) direct influence on policies. EC is important reference but plays no direct role in domestic policy making.	Limited foreign debt, the IMF has little power over the government and very limited influence on its policies. EC is important reference but plays no direct role in domestic policy making.

Also, in both countries trade unions and employers participated in the reform process through neo-corporatist arrangements at the national and sectoral or decentralized levels. Employers were weak in both cases, and possibly their main contributions to the reform process was a growing rejection of collective bargaining at the sectoral and enterprise level. As a result, in both cases the projected key role of collective bargaining in determining actual working conditions, further undermined by central wage regulations and weakness of trade unions, did not materialize.

Important differences did occur in the relative importance of trade unions. In Czechoslovakia, neo-corporatist policy making provided the trade unions with more influence than in Hungary. This because the Czechoslovak union movement was unified and the Hungarian one strongly divided, and because, while in both cases the

governments considered neo-corporatist negotiations as a (temporary) means to maintain social peace, an important component of the Czechoslovak government, i.e. the former dissidents, considered union involvement in policy making also normatively just. Hence, Czechoslovak unions could demand more influence and were offered more influence than their Hungarian counterparts. The compromises reached between unions and government in Czechoslovakia were institutionalized in broad General Agreements, whereas this was never achieved in Hungary.

Looking at the international actors, they were important references and played an important role in shaping the discursive environment in which actors in the two cases operated. In Hungary, the IMF also exercised direct influence on policy making, following from the country's large debt. However, in Czechoslovakia which had a limited foreign debt and limited financial assistance from the IMF, the IMF's direct influence on labour market policies and regulations was limited in this period. In both countries the EU hardly had any such direct influence.

Hence, the main differences between the two cases in terms of actor relations are two-fold: (i) the Hungarian government was a fairly homogeneous actor representing one fairly coherent vision, while the Czechoslovak government was a heterogeneous one, representing two opposite views; (ii) Czechoslovak unions had more influence on policy making than Hungarian unions; and (iii) the IMF exercised much more power over the Hungarian government than over the Czechoslovak government. As a consequence, in Hungary policy was mainly shaped by actors with largely monetarist neo-liberal ideas, combined with a 'fear of society.'

In Czechoslovakia policy was shaped by on the one hand very orthodox monetarist neo-liberals, which did not even have an interest in the firm institutionalization and enforcement of the market. On the other hand it was shaped by social democratic dissidents, which were often on one line with the relatively powerful trade unions. Contrary to the Hungarian case, these two groups had to find compromises, or to share decision making.

These differences between the two cases resulted in a number of similarities and differences in the trajectories followed by the two cases. The main elements of these trajectories are summarized in table 5.4. In terms of governance mechanisms, clearly in

the Hungarian case the market was of more importance than in Czechoslovakia, while in the later both the state and associational governance played a larger role and aimed to maintain full employment. This stronger market orientation in Hungary and a stronger orientation towards state and associational governance as well as full employment in Czechoslovakia suggest that there are important elements of continuity with the state socialist era and, in fact with the longer historical trajectories of the two cases going back to the late 19th century. These continuities in the individual cases point to continued elements of diversity between the two cases. A further element of continuity is the continued basic aspiration towards modernization.

Table 5.4: Main similarities and differences, HU and CZ, extrication and the first governments

Hungary	Czechoslovakia
Similarities	
Liberalization, privatization and stabilization	
Minimum standards governing the individual employment relationship	
Rapid decline of collective bargaining	
Differences	
Strongly institutionalized and enforced market in the economy in general and on the labour market.	Weakly institutionalized and enforced market in the economy in general and on the labour market.
Radical restructuring including widespread bankruptcies; occasional bailing out of enterprises or banks.	Gradual economic restructuring, continuation of some forms of state support, few bankruptcies.
Marginal role for employment policy, mainly unemployment management.	Central role for employment policy, a low wage-low unemployment strategy.
Gradual decline of real wages.	Dramatic real wage decline in 1991, real wage growth afterwards.
Dramatic decline in employment.	Limited decline of employment.

However, while historical trajectories are not completely interrupted and certain longer-term difference continue to exist, they do so within a context of radical change and innovation. Hence, while there has not been a complete break with the past, actors have radically reoriented the development paths and modernization strategies of the two cases. Within this radical reorientation there are obviously many converging elements and some diverging elements between the two cases in terms of fourth and third order change. Convergence seems to originate to a large extent in: (i) the widely-shared perception that successful modernization equals some form Western capitalism; (ii) the dominant discourses in the international ideational context and the singular views these express on

the basis of success of Western capitalism; (iii) the active promotion of these discourses by in particular international actors. Divergence, apart from diverging histories, originates much more in the different ways the struggles between actors promoting their (members') ideas and interests play out. The influence of specific ideas and interests is mediated by the power of the carriers of these same ideas and interests and their relations with other relevant actors.

In most policy areas the specific regulations and policies as well as their settings then seem to be the result of: (i) prioritizing and synchronization between policies and policy objectives (e.g. inflation objectives are deemed more important than income maintenance); again the struggle between the different actors defending their ideas and interests; and (iii) learning from the outcomes produced by policies.

In the last chapter I will discuss these issues in more detail. Now I will turn to the discussion of the latter two governmental periods.

Chapter 6: Reshaping labour market institutions part III: the second and third governments.

In the periods of extrication and of the first governments, the relations between the four groups of actors were profoundly reshaped labour market institutions were fundamentally altered. In the present chapter, I will discuss the second and third governmental periods, dealing with the same issues discussed in the previous chapter. As I will show below, institutional change in these second and third periods was less profound than in the earlier ones. However, this does not mean that the two cases simply followed a new, static path after a short period of extreme rupture. While changes in the subsequent period are less dramatic, they do continue to reshape the labour market institutions in the two countries.

6.1 Hungary 1994-1998: the Horn government

The broader economic and political context: former socialists implementing neo-liberal policies under IMF pressure

The 1994 elections brought the socialist party (MSZP), the successor of the former ruling party, to power. The parties forming the previous government did not do well at all in the elections and especially the MDF lost most of its support. This resulted largely from the deepening economic and social crisis Hungary was facing, as well as from the fact that the MDF government was widely perceived as arrogant and distanced from society. In addition, following from the deep crisis in the whole of CEE as well as the stagnation in the West, many started questioning the monetarist-neo-liberal ideas that dominated the early 1990s. A return of the former ruling parties happened in many CEE countries in the second post-socialist elections.

In the election campaign, the MSZP took a pro-reform stance, rejecting a return to the past and committing itself to further reform, including privatisation, stabilisation, external debt serving, facilitating foreign investment and the pursuit of EU membership. However, it underlined the deteriorating social conditions in the country and presented itself as the socially-conscious, social-democratic party that would protect the old, the workers, and the excluded. Also, it claimed that it would champion social dialogue and

would give the social partners a real voice in economic and social policy. The MSZP's social stance gained credibility through the strong institutional links it had forged with the successor trade union confederation MSZOSZ, by far the largest trade union confederation and among Hungary's largest and best organised institutions (Orenstein 1998). At the same time, the MSZP managed not to alienate the entrepreneurial class, pensioners and farmers and built a cross-class alliance of winners and losers around a credible pro-reform strategy (*ibid.*, p.490). As a result of its broad appeal it won more than 50% of the seats in parliament. In a move to further establish itself as a legitimate democratic party, under the leadership of Gyula Horn it set up a powerful coalition government with one of the liberal parties, the SZDSZ (the Alliance of Free Democrats), together good for 72% of the seats in parliament.

The Horn government did however face a complicated socio-economic and political situation. First of all, it inherited an economy in crisis, with a mounting budget deficit, a high foreign debt, a lack of economic growth, plummeting employment levels and increasing poverty. It had promised a more social policy during the elections and the MSZOSZ and a variety of social groups had high expectations in this respect. It also had to deal with strong IMF demands for a stricter monetarist neo-liberal policy, demands that were explicitly tied to the awarding of a new stand-by agreement the Horn government tried to obtain to finance the current balance of payment deficit (see below). Finally, the MSZP was not ideationally homogeneous and did not have one single view on what reform strategy to follow. Roughly we can say that there was an intra-party ideational conflict between a social-democratically oriented faction and a monetarist neo-liberal faction. The former group represented the 'social face' of the party, had close ties to the MSZOSZ and included a number of union representatives that became MP for the MSZP. The latter technocratic group was rather on the line of the IMF, advocating a structural adjustment type approach.

After a long period of indecision and debate it was the neo-liberal faction that won the intra-party struggle and in March 1995 the government announced a tough package of restrictive economic measures known as the Bokros package after the then minister of finance. The Bokros package, presented in a typical TINA-fashion, gave absolute priority to macro-economic stabilisation and the balancing of the budget as the

goal of economic policy. It speeded up the sales of state enterprises to foreign investors, it devaluated the national currency by 9%, followed by monthly smaller devaluations, and imposed certain import surcharges. In addition, reversing the cautiousness of the previous government and putting aside the 'fear of society', it downsized public expenditure, limited social benefits and above all drastically cut real public sector wages. In this way, it aimed to decrease consumption, an objective that had achieved almost mythical status among government economists (Héthy 1995a). Indeed, according to Bokros, it was "...the historic task of the socialist government to roll back the frontiers of the welfare state'.[73] The philosophy of the Bokros package was maintained during 1996, after which restrictive policy was loosened up somewhat.

The victory of the neo-liberal faction followed after severe IMF pressure. Indeed, the austerity package largely followed the demands of the IMF, which made it clear that future aid would only come through if their reform proposals would be followed (Nagy 2003: 50-56; Adam 1999: 61; Andor 2000: 133). The then Director of the IMF, Michel Camdessus, '... welcomed the measures adopted in March, and now being reflected in the supplementary budget, as courageous and substantive. This package, implemented as envisaged, will arrest an incipient widening of the budget deficit and contain external financing requirements.'[74] The IMF outlined the main policy objectives for Hungary's economic policy: a reduction of the government deficit; monetary and wage policies targeted at a significant reduction of inflation; structural reform of the public sector; adjustments to the social security system; and a re-acceleration of privatization to curtail the role of the State and increase the responsiveness of the economy to market signals. Finally Camdessus said 'he would be prepared to recommend to the Executive Board that IMF financial support be provided for a government program that would realize these objectives.'[75] And indeed, it was only in early 1996 that a new stand-by agreement was approved by the IMF.[76]

The Bokros package decisively prioritized the reduction of inflation over growth and income maintenance. The socialist party, in spite of its working class discourse,

[73] Financial Times Survey, Hungary, November 21, 1995.
[74] IMF News Brief No. 95/14, June 6 1995.
[75] Ibid.
[76] IMF Press Release Number 96/10, March 15, 1996.

practiced economic policy very much in line with the hard-line monetarist neo-liberal approach to post-socialist reform, putting the burden of macro-economic and micro-economic adjustment on the shoulders of the middle and lower income groups.

Within this context, GDP stagnated in 1995 and 1996, increasing by only 1.5 and 1.3 percent respectively and reaching 86.6 percent of its 1989 level. In 1997 and 1998, however, GDP growth accelerated with 4.6 and 4.9 percent respectively. Employment did not follow GDP and continued to decline in 1995 and 1996 while it stagnated in 1997-1998. Real wages fell by 12.2 percent in 1995 alone, and by another 5.0 percent in 1996. In 1997 and 1998, real wages increased again (by 4.9 and 3.6 percent respectively) but this could not make up for earlier losses. In 1998, real wages reached 82.5 percent of their 1989 level and, since also social benefits were drastically reduced, poverty had rapidly increased (Lelkes 2000; Berki and Ladó 1998). Still, according to the IMF, 'remarkable progress' was made and 'solid results' achieved with the implementation of the 1995 and 1996 reforms.[77]

It was at the end of the Horn government that the issue of EU accession became more tangible and from an abstract goal accession turned into a lengthy process of negotiations and institutional adaptations. Formal negotiations on the 31 chapters representing the *Acquis Communautaire* were started in March 1998. Also, the European Commission started to publish its Regular Reports, yearly reviews of the 'progress' made in preparation for accession. A large number of adaptations of regulations were required to fulfill the accession criteria. As we will see below, these also affected labour market regulations.

Shaping new labour market institutions

Neo-corporatism: great expectations, few results

The close links between the MSZP and the MSZOSZ, as well as the social dialogue-friendly discourse of the former during the elections, led many to expect an intensification of neo-corporatism. It was expected that now trade unions, and to some

[77] 'Hungary's Stabilization and Reform Yields Solid Results', IMF Survey Vol. 26, No. 14, July 21, 1997.

extent employers as well, would be treated more as equal partners by the government and would get a bigger voice in public policy-making. Also, the MSZP and the MSZOSZ largely seemed to have the same ideas concerning economic and social policy.

Initially these expectations seemed to be confirmed. The government set out to negotiate a broad 4-year Social and Economic Pact within the context of the IRC (Héthy 1999a) However, lengthy negotiations led to few results, and when the neo-liberal faction won the internal struggle within the MSZP, social dialogue lost its priority status and the government broke off the talks. The unions and employers were subsequently simply confronted with the Bokros package, without any prior consultation or other type of involvement. Especially to the MSZOSZ this represented a severe blow. Its alliance with the MSZP prove worth little. Even worse, the government it had been supporting now pushed through a reform package that fundamentally contradicted the ideas of the union, heavily affecting its credibility and legitimacy as a defender of the workers and the weak. The relations between party and union reached a new low and union protest mounted.

The trade union protests against the Bokros package were however not led by the MSZOSZ but mainly by the SZEF, ÉSZT and ASZSZ, organizing public sector employees and employees in public utility companies (Tóth 2001: 49). The MSZOSZ, apart from the blow from the betrayal by the MSZP, had by mid-1995 lost over half of the 1.2 million members it still had in 1993, which seriously affected its mobilization capacity (*ibid.*: 49-50). It thus lost its position as the undisputed leader of the union movement, even though it remained the largest confederation. This marked a shift from a largely industrial union movement to a more mixed one in which the public sector unions played an increasingly important role. The increased militancy of the public sector unions also follows from the fact that public sector employees carried the largest share of the burden of the government's adjustment policy.

In 1995 no important agreements were reached in the IRC, not even concerning wage guidelines. However, the government had no intentions to dispose completely of the IRC, which had become part and parcel of the Hungarian industrial relations system over the years. What is more, after the wave of union protests in late 1995, in 1996, the IRC started to perform many of its previous functions again (Toth 1999; Hethy 1999b). In 1996-1998 joint recommendations on wage increases were produced again and the

minimum wage was set by the IRC. The IRC also played an important role in a number of institutional innovations, which gave the social partners, and especially the unions some further rights and institutional positions. These included the adoption of the Labour Inspection Act in 1996, aimed at strengthening the control of the implementation of the rights of employees, the registration of collective agreements was made obligatory in 1997 in an attempt to strengthen their enforcement, and the Labour Mediation and Arbitration Service was set up to smoothen labour disputes. Also, in 1996, the various (un)employment and training-related funds that existed until then were joined into the Labour Market Fund, overseen by the tripartite Labour Market Fund Steering Committee. Finally, following the adoption of the new Law on Regional Development in 1996, the social partners got a place on the county-level Regional Development Councils (Keune 2001). In this way, the social partners had a number of institutional positions which allowed them to participate in policy making and implementation; their role was however clearly limited to the strict labour field, with the slight exception of the regional development councils.

Wage policy: reducing inflation and public expenditure through real wage decline

The Bokros package had among its core objectives the reduction of inflation and of public expenditure, to be achieved through decreasing consumption. The main wage policy feature of this strategy was a strong reduction of real public sector wages, which was expected to be followed by wage declines in the private sector. Again, this policy was devised in close cooperation with the IMF, and the Fund fully shared the approach taken by the government. In a letter sent to Bokros in Autumn 1995, the IMF recalled wage restraint as one of the key points discussed with this minister and as essential to the reform package.[78] According to the Fund, wage restraint had to continue in 1996: 'Wage policy under the program will be restrained as it is critical to the success of fiscal adjustment, the preservation of competitiveness, and the realization of the inflation target.'[79]

[78] Letter of Masimo Russo, Director of the Europe I Department, IMF, to Lajos Bokros in Autumn 1995, reproduced in Nagy (2003).
[79] IMF Press Release Number 96/10, March 15, 1996.

This policy of real wage decline had its harshest effects in 1995, when real wages fell by 12.2 percent, followed by a smaller but still substantial decline of 5 percent in 1996. As to be expected, the decline in real wages was the strongest in the public sector. With inflation at 28.2 percent in 1995, nominal wages increased by 10.7 percent in the public sector and by 19.7 percent in the private sector (Fazekas and Koltay 2002: 315, Table 7.6). A similar difference occurred in 1996. Hence, it was the public sector that paid the largest price for the government's stabilization policy.

Real wages had then reached their lowest point in comparison with 1989, amounting to only 77 percent of real wages in that year. In comparison, real wages in the Czech Republic, falling much faster than the Hungarian ones in the first post-socialist years, had by 1996 recuperated strongly and had again reached their 1989 level. As of 1997, wage policy was loosened again leading to modest real wage increases in 1997 and following years. This loosening of wage policy can only partially be explained by the results of the policy package. While the budget deficit and foreign debt had indeed been reduced, the inflation target of 10 percent had not been reached at all: inflation in 1995 amounted to 28.2 percent and in 1996 to 23.5 percent, higher than in the previous three years. Inflation would also remain far above 10 percent in 1997 and 1998. Hence, this policy turn should be interpreted partially as an answer to increased social protest and also as a result of the renewed negotiations in the IRC. It thus marks a limit to the extent in which the state can or is willing to technocratically pursue macroeconomic policy objectives without taking account of the effects its policies have on wages and incomes.

The minimum wage was of much less interest to the government, in particular because it had only a limited effect on public sector wages. Hence, the Horn government tended to leave the definition of the minimum wage largely to yearly bipartite negotiations between employers and unions in the context of the IRC, limiting its role to asserting if the agreements reached were acceptable for the state budget (Berki and Ladó 1998).

Employment policy

Whereas during the election campaign the MSZP had proclaimed the reduction of unemployment as a priority, with the Bokros package employment was again marginalized. It was argued that improvements in employment would critically depend on the reduction of inflation, debt and deficit. Two issues then received priority: privatization and reduction of public sector employment, both also explicitly called for by the IMF.[80] Privatization, it was argued, would restructure industries in favour of the competitive sectors and branches, and improve efficiency and productivity. This, together with the decline in real wages would then ultimately stimulate investment and employment creation. A further reduction of public sector employment through rationalization of government departments and elimination of certain elements of the government apparatus would allow for a reduction of the budget deficit.

Hence, like under the previous government employment creation was largely left to the market. This was not entirely the case, however. Market-based wage formation was the key market dimension that was suspended to reduce real wages. Employers were favoured by this reduction in labour costs and further benefited, in 1997, from a reduction of taxes and contributions levied on wages. These reductions in labour costs through centralized non-market means were expected to have a positive employment effect.

Some limited support was given as well to the creation of employment, in particular under the new Regional Development Law of 1996. For the rest largely the same active labour market policies applied under the previous government were in place, with the relevance of individual items varying somewhat. These measures continued to be largely aimed at preparing unemployed persons to get back into the labour market. However, as part of the attempt to roll back the welfare state changes were also made to the unemployment benefit system, according to the then minister of finance Péter Medgyessy with the aim of increasing '....the difference between incomes originating from employment and the level of unemployment benefits.'[81] Being unemployed, or

[80] Letter of Masimo Russo, Director of the Europe I Department, IMF, to Lajos Bokros in Autumn 1995, reproduced in Nagy (2003).
[81] Summary of the press conference held after the Government Meeting on 11.20.97, seen on 10-06-2000 at http://www.meh.hu/ULES/1997/11/971120F.htm.

rather receiving unemployment benefits, had to be made more difficult and less attractive. Hence, the school-leavers benefit was abolished in 1996 and the eligibility criteria, duration and level of unemployment benefits were gradually tightened and reduced. In this way, the rights of the unemployed were downsized, the role of the state was reduced and individual responsibility for one's own faith increased. More and more a workfare philosophy dominated labour market policy.

Collective bargaining

Because of the implementation of the Bokros package, the lack of a tripartite wage recommendation, and the continuous loss of membership of in particular the MSZOSZ, in 1995 collective bargaining proved to be particularly difficult. As a result, the coverage of enterprise level and in particular sectoral agreements turned out to be the lowest of the 1990s. The Horn government, and in particular the ministry of labour, saw this as an unwelcome development. Indeed, it subscribed to the vision of a strong role for collective bargaining underlying the Labour Code. Hence, it took a series of measures intended to strengthen collective bargaining. One rather peculiar measure was an amendment to the Labour Code in 1995, which allows collective agreements to deviate from the norms of the Labour Code to the detriment of the employee if regulated by an enterprise collective agreement, and even further deviation if regulated by a multi-employer collective agreement. This for example allows the bargaining partners to increase working time flexibility and to raise the maximum number of hours of overtime. The aim was to increase the interest of employers in concluding collective agreements, oddly enough by allowing them to undercut the standards applying to individual contracts and allowing them to increase labour flexibility, more and more emerging as a central issue in the debate on labour market regulation. Another measure mentioned above was that the registration of collective agreements was made mandatory, while also the Labour Inspection got the authority to control whether collective agreements are respected (Nacsa and Neumann 2001). The interest in collective agreements had its limits however as far as the state was concerned, shown by its lack of interest in extensions of collective agreements.

As of 1996 the situation concerning the coverage of collective agreements returned again to the pre-1995 situation in terms of coverage and the predominance of decentralized agreements, and it remained fairly stable throughout the 1990s. However, there is some evidence that part of the post-1995 collective agreements were concluded on the initiative of the employers and with the sole aim to benefit from the new regulations; in some cases it was actually the employer who promoted the creation of enterprise unions exclusively for the purpose of increasing flexibility and lowering labour standards (Nacsa and Neumann 2001). Hence, while collective bargaining was initially largely an instrument to negotiate actual labour standards building on the minimum standards of the Labour Code, basically to the benefit of employees, now it acquired a new and increasingly important function as an instrument for employers to lower labour standards.

International actors

As exhaustively demonstrated above, the IMF had strong direct influence on policy making during the Horn government. It pressured for structural adjustment type policies with the emphasis on the reduction of inflation and an increasing role for the market, using its financial power to reach its objectives. In the labour market field this concerned in particular real wage decline as well as the reduction of public sector employment. However, the strong IMF pressure on government expenditure naturally also limited the possibilities in other employment-related policy areas.

The EU continued to be a key point of reference for institutional reforms during most of the Horn government, meaning that attempts were made to assure that domestic rules were in line with or at least not contradicted EU regulations. However, in the latter part of this governmental period the EU changed from a point of reference into a more direct factor of influence. In July 1997, the Commission published a positive opinion on Hungary's application for membership, arguing that the country met the Copenhagen political and economic criteria. In March 1998 the two parties started the negotiations on the adoption of the *acquis*. Hence, from that moment on, Hungary had to start aligning itself to a set of regulations and practices, laid down in the hard and the soft *acquis*. Most

of the impact of this change materialized under the next government. However, during 1998, a series of legislative changes were adopted to adjust regulations to EU standards adjusting employees' rights on the transfer of undertakings and the rules on collective redundancies to EU regulations; equal treatment of men and women was addressed through the enactment of a number of statutes related to social security; and social security and pension legislation was extended to migrant workers.[82] Also, Hungary started to be incorporated into the EU policy making and social dialogue machinery, the effects of which again showed up under the next government.

6.2 Hungary 1998-2002: the Orbán government

The 1998 election were very closely contested. The MSZP's chances were negatively affected by a number of factors, including the after-effects of the Bokros package, as well as a series of corruption scandals, political blunders and a badly designed election campaign. At the same time, it had been quite successful in framing the accelerating economic growth and real wage increases of 1997 as major achievements of its adjustment policies. In fact, while it lost an enormous share of the electorate compared to 1994, it did get more votes than any other party. However, due to the peculiarities of the electoral system it ended up second with 34.7 percent of seats in parliament. The winner of the elections became the rightwing, conservative FIDESZ, under leadership of Victor Orbán, which emerged as the largest party in parliament, conquering 38.3% of seats. Together with the much smaller Smallholders party and MDF it set up the new government.

Key to the vision of FIDESZ were the restoration of 'the prestige of civic values' and strengthening the middle class: 'The focal point of our plans and deeds is the vision of a strong middle-class Hungary.'[83] Consequently, it emphasized issues like civic values, nationalism, underdevelopment in agricultural regions, support to families, and crime. In a clearly étatist fashion, it argued for a stronger state than under the previous two

[82] European Commission (1998) *Regular Report from the Commission on Hungary's Progress towards Accession*, Brussels.
[83] The Orbán government's 1998 *Government Programme for a Civic Hungary. The New Millenium is Impending.*

governments, seen as a precondition to achieve its goals: 'The Government will set out the strengthening and the enhancement of central initiative and co-ordination as the essential condition of fruitful government.'[84] To be able to do so, it was argued, the government's ability to act had to be strengthened, which led it to strengthen the powers of the Prime Minister and to insulate government from most societal interests, especially trade unions.

The Hungarian government's medium term economic strategy, adopted in June 1999, had the fundamental intention to enable Hungary to converge gradually with the European Union in terms of economic performance, and subsequently in terms of the welfare and living standards of its citizens.[85] The government underlined that Hungary had undergone a successful transition to a market economy in the previous ten years and that after a period of austerity measures, Hungarian citizens now had the prospect of gradual improvement in well-being.

Initially, the economic policy of the Orbán government in the first half of its term continued the practices of its predecessor. It set itself the goal of bringing inflation down to one digit and the budget deficit to 3.5 percent of GDP in 2000, and continued to give priority to foreign investment. The Orbán government indeed underlined the continuity with the previous government, not in the least to ensure foreign political and financial confidence in the new government (Lomax 1999:122).

However, in early 2000, Prime Minister Viktor Orbán claimed that, in 1999, Hungary had definitely left behind its state socialist past and had created a Western-type market-oriented society with a viable, modern and competitive economy.[86] This statement was supported by the strong economic growth in the previous two years, 4.9 and 4.2 percent respectively. At the same time, he said, two-thirds of the population struggled to get by every month. Therefore, he claimed, '...we must take more energetic steps to achieve that an increasing number of families should be able not just to solve their momentary problems but to save money for tomorrow.'[87] Hence,

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[84] Ibid.
[85] Government of the Republic of Hungary and the European Commission, Directorate General for Economic and Financial Affairs, *Joint Assessment of the Economic Policy Priorities of the Republic of Hungary*, April 6, 2000 Brussels.
[86] Victor Orbán in his Address on the State of the Nation , 3 February 2000.
[87] *Ibid.*

the government proclaimed that for 2001-2002 its main goal would be to raise the country's living standards and to promote sustainable growth. In accordance, it announced that, although it wants to maintain a balanced budget, it also wants to raise government expenditure to stimulate economic growth. This increase in expenditure should be matched by increased tax revenues. An important element in this strategy was the Szechenyi plan, a package of grants and subsidies aimed at stimulating investment and economic growth. Also, in line with its proclaimed conservative values, the government announced increased support to families with children through family-friendly tax policy, targeted not so much at poor families but rather at middle class families.[88] It also included the re-institutionalisation of a universal family support scheme. Finally, the government rapidly raised the minimum wage in 2001 and 2002 and increased real wages for certain groups of public employees. On the other hand, the conditions for obtaining certain benefits, including unemployment compensation, were tightened. By and large, the Orbán government favoured the (upper) middle class, contributing in this way to increasing social polarisation, preventing the poor from sharing the benefits of the economic revival.

It is interesting that the political state secretary of finance claimed that the Orbán government was dominated by neo-Keynesian economists that support an active role for the state.[89] He argued that the Orbán government had a different concept of state involvement than the previous one that believed that the state should remain passive under market conditions. He argued that the state's main role is to coordinate the public interest and the interests of large and small businesses. In addition, Minister of Economy Matolcsy had already pointed out that it would be a good thing if wages would increase because that raises consumption, a source of economic growth.[90] Still, while there were indeed new elements in the policy of the Orbán government, its economic policy largely moved within the confines of the core policies of the two previous governments and remains focused primarily on stabilization and supply side measures. It had the advantage, however, of less austere conditions following from strong GDP growth in the 2000-2002 period (respectively 5.2 percent, 3.8 percent and 3.5 percent).

[88] Victor Orbán in his Address on the State of the Nation , 1 February 2001.
[89] ECONEWS 21-9-2000.
[90] ECONEWS 15-12-1999

Neo-corporatism: marginalisation of unions and employers

The Orbán government, considering itself as the only political actor with a legitimate mandate, aimed to strengthen the position of the state and to insulate itself from most societal interests. In itself this drive towards insulation was not a new phenomenon. Both the Antall and the Horn governments pushed through much of their reform programmes without the consent of organized interests. However, the first two post-1989 governments also created some meaningful space for the social partners, providing them with institutional positions and in certain occasions with significant voice concerning institutional reform. The Orbán government, however, rejected any corporatist attempts and set out to destroy the tripartite system and further weaken in particular the unions (Boda and Neumann 2000; Tóth 2001). It questioned the legitimacy of neo-corporatist structures and considered them as obstacles to the proper functioning of both the state and the economy. Also, not unlike the Antall government, it considered trade unions largely as unwelcome remnants from the past. Contrary to its predecessors, it also considered that the improvement of the national economy and the weakness of the social partners made it superfluous to (pretend to) seek the consent of the social partners as a means to legitimise its economic and social policy.

In line with these considerations, the Orbán government profoundly altered the existing neo-corporatist institutions, depriving the social partners of institutional positions or downgrading the competencies and characteristics of the bodies they participate in. In 1998 it abolished the bipartite Self-Governments of Health and Pension Insurance, bringing these under state control. Also, it modified the Regional Development Act and deprived workers and employers' organisations of their votes in the County Development Councils. In addition the Interest Reconciliation Council for Budgetary Institutions was dissolved, effectively ending national wage negotiations for public services.

The government thought it less feasible to completely dispose of the IRC, because of its longer tradition, its higher profile and its deeper entrenchment in Hungarian politics. Hence, instead of abolishing it, it weakened it substantially. In 1999, the Orbán government dissolved the IRC and replaced it by four fragmented new bodies. The main

one was the National Labour Council (NLC). The NLC's competencies were strictly limited to labour issues (setting the minimum wage, wage increase recommendations, consultation on labour legislation) and broader rights were abolished. In 2000, when unions and employers were not willing to accept the government's proposal concerning the minimum wage for 2001, it also deprived the NLC of one of its most powerful competencies, i.e. its exclusive right to set the minimum wage. It assigned this right to itself in case the NLC is not able to reach agreement, effectively eliminating the tripartite nature of minimum wage setting. In the same year no recommendation for average wage increases was reached, only the second time since 1989.

With the break-up if the IRC the role of the social partners was effectively downgraded to consultation, reducing their influence on government policy through neo-corporatist channels to a minimum. Their reaction was of course negative. The MSZOSZ argued in 2000 that '...social dialogue has reached nadir; the social partners – employers and trade unions – and civil organisations are denied the possibility of taking part in decisions on issues decisive of the future. ... There are no institutional linkages to the preparation of decisions, thus even measures having favourable effects are occasionally taken with reservations and animosity.'[91] LIGA claimed that '...the operation of the new system of institutions up to the present day can be hardly seen as anything but a failure.'[92] One of the side effects of the government attacks on social dialogue and trade unions was that they created, for the first time since 1989, a sense of unity among the unions. With the neo-corporatist channels largely closed off they attempted to forge greater trade union unity and to use mobilization as an instrument to forward their opinions and demands. This resulted in a series of joins demonstrations and declarations by the six major confederations.[93] They also received support from international unions, including the ETUC, WCL and ICFTU. These protests did not substantially alter the position of the government, however, they did lead to additional debate on its plans to modify the Labour Code (Ivány Czugler 2002).

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[91] MSZOSZ (2000) *Civil Country Report; or a View from Below*, http://www.mszosz.hu/english/civil.htm (seen 22-01-2004).
[92] LIGA (1999) *The Activity of the Orbán Government – As Trade Unions See It*, http://liga.telnet.hu/statementsE.htm (seen 1-10-2002).
[93] For a detailed analysis of these events see Girndt (2001).

The Confederation of Hungarian Employers and Industrialists (MGYOSZ) also complained that the government did not enter into a genuine dialogue with business and that tripartism was functioning insufficiently.[94] At the same time, they objected less than the unions since the views of the employers and the government were much more similar and direct, bilateral contacts offered the employers an alternative channel for interest representation towards the government.

Also the European Commission judged the developments concerning social dialogue negatively: '...the Government should make additional efforts to ensure that real dialogue is taking place and is followed up in the appropriate manner (European Commission 2000).' Indeed, this type of criticism was repeated by the Commission throughout the 1998-2002 period. It also claimed that at decentralized level dialogue was largely absent, that there was a need for sectoral-level bargaining and that the government had to assure that the social partners would be prepared to participate in the European Social Dialogue.

Wage policy

Wage policy was very much contested between the government and the unions and strengthened the former in its endeavors to terminate meaningful social dialogue. The position of the employers coincided sometimes with the government but sometimes rather with the unions. For 1999 the parties still managed to conclude a national agreement concerning the recommended wage increases. In this year, wages actually increased faster in the public sector than in the private sector, following increments awarded by municipalities as well as extra wage increases for certain government employees and teachers. For 2000 no national agreement was reached, only for the second time since 1989. The government continued to argue for wage moderation with the objective of limiting inflation, strengthening competitiveness and improving the state budget. Its proposed to base wage increases on the formula {inflation + half of GDP growth} and intended to conclude an agreement based on this formula for a period of several years. Unions objected and argued that it was an unfair way of sharing productivity

[94] ECONEWS 10-10-2000.

improvements and that domestic wages would in this way never catch up with EU wage levels (Tóth 2000). Also the employers saw space for higher wage increases, although possibly less than the unions. No tripartite agreement was reached on this issue, the government stuck to its formula and the social partners issued a higher bipartite recommendation. This created space for higher wage increases in the private sector.

In the public sector the situation was more complicated. Public sector and public utilities unions protested vigorously against the government plans but only the railway workers unions actually entered into a long-term strike to underpin their wage demands. The other public sector unions relied on individual deals with the government, keeping to the general wage increase proposed by the government, complemented by certain fringe benefits (Tóth 2000). As a result, the railway unions lost their strike and were forced to accept the government proposal. Wage differences between the public and private sector subsequently increased.

Also for the minimum wage for 2000 it proved impossible to simply reach an agreement. Again the government proposal was too low for both workers and employers. These then reached a bi-partite agreement to which the government had to subscribe later on (Tóth 2000). In a dramatic reversal, for 2001 and 2002 the government started to advocate accelerated wage increases. This included, to the astonishment of the entire country, a raise of the minimum wage for 2001 of no less than 57 percent, from 25,000 to 40,000 Forint, and another 25 percent in 2002. It also included substantial real wage increases for important parts of the public sector. Orbán justified this reversal with three arguments.[95] One was that wages should be increased to provide decent income from work. Secondly, it was aimed at increasing the difference between the minimum wage and unemployment benefits and to make work more attractive than unemployment. Hence, the increase of the minimum wage fitted the workfare-type activation strategy that the government had been pursuing (see below). Thirdly, adopting the arguments of the unions, he argued that if they would not start now to raise domestic wages, they would never approach EU wages.

However, there were two other motives which seem at least as important. One was the attempt by the government to avoid the conflicts of the previous year, which it

[95] Victor Orbán in his Address on the State of the Nation , 1 February 2001.

not always managed to win. Secondly, it was clearly preparing for the 2002 elections. The employers were obviously against the minimum wage hikes but they were partially compensated by a reduction of the employers' social security contributions. The unions were driven into the defensive as they thought these wage increases might be too high and could lead to employment losses; but they could hardly object too much to wage increases.

Employment policy

Employment played a central role in the programmes of the Orbán government: 'The programme of the civic coalition government is the programme of economic growth and job creation, and the Government aims to increase the number of those employed by two-hundred-thousand within five years.'[96] It set itself the goals of increasing the number of (legally) employed persons, of decreasing unemployment and to 'restore the prestige of honest work'.[97] It aimed to support job creation in a variety of ways. One, as discussed above, was the general promotion of economic growth, through investment promotion, infrastructural developments and financial and other support to small and medium-sized enterprises. As to the latter, the government argued that 'The process of becoming self-employed or becoming a sole entrepreneur must be assisted - especially in agricultural regions - by initiating coordinated training and employment programmes.'[98] However, apart from a strong discourse, the employment effect of the government policy remains unclear.

Another way of promoting job creation the government followed was the increase of labour market flexibility, i.e. a strengthening of market coordination, an issue that had moved to the centre of the labour market debate. Flexibility was to be increased by changes to the Labour Code, allowing for more flexible types of employment, more flexibility in working time, and a reduction of the costs of flexibility, while reducing the rights of employees. The government stated that 'Many jobs can be created by showing

[96] The Orbán government's 1998 *Government Programme for a Civic Hungary. The New Millenium is Impending.*
[97] Ibid.
[98] Ibid.

greater flexibility and exploiting further the potential of part-time employment'[99] and that it was '... endeavoring to introduce and regulate more flexible forms of working.'[100] New legislation aimed to promote part-time employment and fixed-term employment, while also temporary agency work was introduced in 2000, providing employers with high levels of flexibility while leaving employees largely unprotected (Ivány Czugler 2002). Also, employers received greater freedom in temporarily changing employees' workplaces and spheres of activity; the eligibility of employees for shift work and night work bonuses was reduced; a 48 hour working week was legislated; more flexible working time arrangements were introduced; and regulations concerning rest days were made more flexible.

These changes to the Labour Code to increase flexibility were made in the context of the process of harmonizing labour legislation with EU regulations. However, there was a tumultuous debate on how to interpret these regulations and how to use the 'space' they leave for national diversity. Trade unions as well as the MSZP accused the government of using them to downscale domestic regulations and of transposing them in the most minimal way possible, with all possible derogations and exceptions (Ivány Czugler 2002). Also, in a number of occasions where the government justified reforms by claiming that they followed from the requirements of accession, the opposition argued that this was just a pretext for downscaling labour standards. EU accession, of which especially the unions had expected much in terms of increased employee protection and increased employee and union rights, hence became a contested process on which the various parties had diverging views. Union and opposition protest against these flexibilising measures had only limited results and most modifications were pushed through by the government.

As far as unemployment was concerned, the government followed a 'work instead of aid' principle,[101] seeking the reduction of benefit dependency, activation of the unemployed, and the linking of benefits to performing certain types of publicly useful activities. It also aimed to reduce the abuse of unemployment benefits. Indeed, according

[99] Ibid.
[100] Hungarian Government and the European Commission, *Joint Assessment of the Employment Policy Priorities of Hungary*, 16 November 2001.
[101] Ibid.

to Orbán, 'many people in villages and towns get unemployment benefits even if they are known to be far from being needy; in fact, they have a well-paying source of income, mostly from the black economy.'[102] Finally, after several years of continued growth, according to the government Hungary started to suffer from labour shortages, which required further activation of unemployed people. Hence, working had to be made more attractive and being unemployed less.

To reach these objectives, labour market policies were modified substantially: passive labour market measures were more and more substituted by active programmes; the period of eligibility for the unemployment benefit was reduced from 12 months to 9 months; unemployment assistance to long-term unemployed was made conditional on participation in public works; and regular social aid was only provided when the local authority could not find suitable work or if the unemployed could not work for objective reasons enacted by law.[103] Indeed, these reforms constituted a drastic move towards workfare and a strong reduction of the rights of the unemployed. They were strongly contested by the social partners and the opposition. As one of the trade unions put it, 'The unemployment benefit is not a charitable act on the part of the government, it is an acquired right earned by the making of social security contribution payments.'[104] However, like in most of the conflicts discussed here, nor the social partners, nor the opposition had the means to effectively oppose these measures.

The government workfare type employment policy found ample support from the EU. Its focus on employment creation, activation and flexibility very well fitted the EES. Employment policy also more and more acquired a European flavour as Hungary started to become incorporated into the EU policy-making machinery, to 'shadow' the EES and to incorporate its language, instruments and objectives into its employment policy. The country and the European Commission started to conduct their first joint assessment of employment policy priorities, including a long series of (often vaguely formulated) commitments and tasks. Also, Hungary developed its first National Employment Plan in line with the EES. It is however sometimes hard to distill to what extent this has led to a

[102] Victor Orbán in his Address on the State of the Nation , 3 February 2000.
[103] Hungarian Government and the European Commission, *Joint Assessment of the Employment Policy Priorities of Hungary*, 16 November 2001.

transfer or imposition of policies by the EU to Hungary and to real innovations in domestic policy. Because of the vagueness of the commitments made in these documents, they allow for much room of maneuver at the national level.

This is much less the case where EU directives and other regulations are concerned. During the four years of the Orbán government Hungarian labour legislations was, with some minor exceptions, aligned to the acquis.[105] Building on the initial steps made under the Horn government, this meant legal modifications concerning a wide variety of subjects including collective redundancies, the transfer of undertakings, health and safety, temporary workers, the protection of young people at work, posted workers, working time, European Works Councils, and many others. Here the EU did have a clear and direct impact on Hungarian regulations, even though, as in the case of the working time directive, in some cases they can be interpreted in multiple ways.

Collective bargaining

In terms of collective bargaining, the most important issue that emerged in this period was the move by the government to grant works councils the right to conclude collective agreements in workplaces where there is no trade union and where no higher-level collective agreement is in force (Neumann and Nacsa 2001; Ivány Czugler 2002). It justified this measure by claiming that it would promote collective bargaining as such. However, it was widely perceived as an attack of a previously exclusive right of trade unions, stemming from the governments' overall anti-union position. It was highly contested by the unions but again without success. In any case, the reform had little effect on collective bargaining practices. Employers were not overly interested in concluding collective agreements with works councils, since these agreements could not make use of the stipulations that allow collective agreements to undercut the standards of the Labour Code in certain areas (Neumann and Nacsa 2001). Also, in practice works councils are present mainly in enterprises where trade unions are active. In those where they are not,

[104] LIGA (1999) *The Activity of the Orbán Government - As Trade Unions See It*, http://liga.telnet.hu/statementsE.htm (seen 1-10-2002).
[105] European Commission (2002) *Regular Report from the Commission on Hungary's Progress towards Accession*, Brussels.

there are often no conditions for collective employee action, making it unlikely that employees will start organising works council elections (Neumann and Nacsa 2001).

The measure also did not seem to have any effect on the incidence and coverage of collective agreements, which slowly declined during this period. The EU repeatedly expressed its worries about the limited coverage of collective agreements, in particular at the sectoral level, and urged the government to assist social partners to improve this situation. The main outcome of this has been the a Phare-project promoting the establishment of sectoral social dialogue committees.

International actors

Contrary to the previous government, the Orbán government had few dealings with the IMF. It faithfully served its debt but did not enter into new major agreements. Also, it was not keen on foreign involvement in domestic affairs. As a result, the Fund did not have much possibilities to have influence on policy making. In addition, the international financial institutions had by then lost much of their central role in the post-socialist reform process in the entire region. This role had been taken over by the EU, including strict demands concerning inflation, budget deficits and the like.

The Orbán government, like its predecessors, underwrote the crucial importance of achieving EU membership, even though it did practice a more assertive and independent discourse: 'The main question of accession to the Union is whether we will be able to create a country of middle-class, independent citizens able to use the possibilities the Union will give them, or rather will be forced into colonized status on the edge of Europe.'[106] In the context of the accession procedures, interaction and co-operation with the EU on economic and social policy issues intensified. The European Commission started to publish yearly Regular Reports in which it reviewed the progress made by Hungary in adopting the *Acquis*. The Commission also produced, in 1999 and 2001 the so-called Accession Partnership documents in which it outlined short and medium-term policy priorities.

[106] The Orbán government's 1998 *Government Programme for a Civic Hungary. The New Millenium is Impending.*

In the labour market field, as discussed above, the Commission and the Hungarian government started to conduct joint assessments of employment policy priorities, Hungary started to shadow the EES, and labour legislation was aligned to EU regulations. The EU also started to put pressure on Hungary to improve social dialogue and to strengthen collective bargaining. Hence, the EU stopped being a simple point of reference and started to become part of the policy making process in Hungary. And while the effective influence of the EU on domestic policy should not be overstated as mentioned above concerning the role of the EES, to some extent the boundaries between domestic and EU policy became blurred.

The character of the influence of EU policies and regulations on labour market governance is a complex and sometimes contradictory one (Keune 2002). On the one hand, the adoption of EU directives translated into an extension of employee protection and to some extent the strengthening of the role of the state and the social partners, thus constraining market governance. However, at the same time, the *acquis* promoted further market coordination, fostering labour market flexibility and competition.

6.3 Czech Republic 1992-1998: The Klaus governments

The broader economic and political context: from the Czech miracle to the Czech crisis

The 1992 elections were a resounding victory for the Klaus and his ODS, conquering just under 50 per cent of the Czech seats on the Federal House of the People and House of the Nations, as well as 38 per cent of seats in the Czech National Council. Second were the communists with some 18 per cent of seats in the Czech National Council, followed by six smaller parties each getting 6-8 per cent of seats. Hammered by the attacks of Klaus and unable to mobilise voters around their platform of the rule of law and anti-politics, the OH, home to many of the dissident leaders of the Velvet Revolution, did not manage to get any seat.

The victory of the ODS resulted from the fact that it managed to frame social and political conflict in terms of a struggle for allocation of economic resources (Kopecký 2001) and at the same time to take the credit for the relatively favourable economic

situation in the Czech part of the Federation. Also, Klaus presented himself as a confident, experienced economist and persuaded much of the Czech public and media that there was no alternative to his reform programme (Stroehlein 1999). He also effectively tried to silence any debate on these questions showing increasing intolerance with divergent opinions.

The new government was a coalition made up of ODS, ODA and the Christian Democratic Union/People's Party (KDU-CSL), with Klaus as prime-minister. This coalition got a strong position in the Czech part of Czechoslovakia, which was only strengthened after the break-up of the Federation by the end of 1992, orchestrated by the political leaders of the Czech and Slovak parts, Klaus and Mečiar.[107] The opposition was weak because of its fragmentation and because the largest opposition party was the orthodox Communist Party (the former official party), with which none of the other parties wanted to co-operate. Until 1996, the main opponent of Klaus was president Havel who in several occasions intervened in politics but who could build on little more than his moral authority, the presidency being a fairly symbolic function. One of the main differences with most other CEE countries here was that there was no strong social-democratic party. The Czech Social Democratic Party (ČSSD) received only eight percent of seats in parliament.

Where under the OF government the economic reform project of Klaus was counterbalanced by a strong social-democratic force, after the 1992 elections this counterforce was radically diminished. Hence, the ODS-led government had more freedom to pursue its monetarist objectives and the strongly market-dominated system it advocated: 'We believe that free market is the best way to encourage human endeavour and ensure appropriate and efficient use of natural resources. We believe that a society in which economic forces compete freely is most likely to achieve economic growth and

[107] The break-up of Czechoslovakia was indeed not an inevitable outcome of history. In spite of important historical, cultural as well as religious differences between the two parts of the country, until the 1992 elections there was a basic consensus in the Czechoslovak society to maintain the Federation. This changed in 1992 during the election campaign and, above all after the elections. The victors of the elections, in the Czech lands Klaus and his ODS, and in Slovakia Mečiar and his HZDS, were divided on the basic parameters of economic and political reform. In addition, both followed a confrontational course of politics, aimed at securing their power base in their respective territories. It was them, then, who exploited the possibilities of this particular historical moment and negotiated the break up of Czechoslovakia. For detailed discussions see Eyal (2003), Innes (2001, 1997), and Kopecký (2001).

improve standard of living.'[108] Clearly, the market was argued to be the key mode of governance for the contemporary Czech economy and society, which should be given priority even when malfunctioning: 'We have no desire to repair the imperfections of markets using state intervention and regulation, which so often cause only problems.'[109] Klaus practiced a one-dimensional and decisively neo-liberal discourse '...based largely on the assumptions that the market order is the "natural state" of society and that market behaviour is universal (Večerník 1998: 252).' Hence, discursively the coalition fervently promoted market governance over other types of governance and individualism over collectivism. Klaus and the ODS claimed that individual freedom, political pluralism and the market are sufficient and indeed the only mechanisms to create a just, civilised and solidaristic society. They favoured a strong state, but with competencies in an only very limited range of policy areas, mainly internal and external security, protection of rights, anti-inflationary policies, and enforcement of the fulfillment of contracts. The state was also assigned certain responsibilities in social policy and protection of the environment, but these should be kept to a minimum. This was deemed especially true for labour market and social policies: 'The danger of state expansion to areas which are best left to the private sector is greatest in labour and social security matters. This is because the argumentation of those who seek to extend the role of the state in these areas exploits our sensitivity to human suffering. The end result is the welfare state, in which state removes from individuals a large proportion of their responsibility. This deprives them of their freedom, creating a situation in which large groups of citizens become dependent on state-provided care, effectively relinquishing the opportunity to return to normal life. Such a situation is immoral and dangerous.'[110]

With 95% of prices having been deregulated by the end of 1991, the two main pillars of his government's policy continued to be the control of inflation and the budget, and privatisation. Stabilization was at the heart of Klaus's doctrine and the government maintained its budget deficit low, at maximum 2.1 percent of GDP (in 1997). Also, Klaus triumphantly repaid all Czech debt to the IMF in August 1994; it was the first post-communist country to retire its indebtedness to the IMF (Leff 1997). Inflation was

[108] ODS Political Programme, adopted by the 6th Congress of ODS, Hradec Kralove, October 1995.
[109] Ibid.
[110] Ibid.

brought down from 56.5 percent in 1991 to 10 percent in 1994, and remained just below this figure in 1995-1997.

Privatisation had started under the OF government. It included the direct sales of certain large enterprises to (often foreign) investors; restitution of nationalised property; and the so-called 'small privatisation', i.e. the sales or lease of some 25,000 shops and small enterprises to Czech citizens. This process had been completed by the end of 1992. Privatisation was then accelerated through large-scale voucher privatization, completed by late 1994. It was one of the major expressions of the Klausite neo-liberal discourse. It was presented as the free and socially just distribution of the national wealth to the population which had created but not owned it. This was also deemed economically rational because it was expected to lead to an accumulation process in which those with the best knowledge of markets and the best ability to develop rational expectations about the future were likely to be successful. In this way, wealth would end up in the most 'capable' hands and the social order would efficiently and promptly return from the dangerous and distorting state socialist experiment to a Hayekian spontaneous order in which the 'best' are the richest and vice versa (Mertlik 1995). Privatisation thus tacitly relied on the assumption, '...that the distribution of ownership rights is sufficient in itself to create conditions for the gradual allocation of property to responsible owners (Večerník 2001: 50).'

Reality looked however a bit different. The state retained control over many large and strategic enterprises, most importantly the banks but also mines, telecommunications, Czech Airlines and transport companies. The relationship between government and large industry was quite complex, '...reflecting hostility to structures inherited from the past alongside a recognition of their essential role in ensuring economic prosperity (Myant 2000: 5).' In direct contrast with the market discourse, economic reformers refused to let the 'core' of the economy be destructed. They defended the large engineering combines, even when they got in serious financial trouble, including effective subsidisation. They would do so to avoid employment an income losses but also out of a sense of national pride in the industries and firms that are firmly rooted in the modern Czech nation, and to prevent too many key enterprises from ending up in foreign hands (Myant et al. 1996: 242). Clearly, Klaus was less neo-liberal and less market-oriented than he wanted the

world to believe. The most constant factor in the Klaus era was the priority given anti-inflationary policies, the balancing of the budget and privatisation.

Voucher privatisation, instead of attracting strategic investors led to the concentration of shares in Investment Privatisation Funds (IPFs), which concentrated on the most advantageous allocation of capital but not on management and the restructuring of firms; they also had little managerial and supervisory power and limited professional skills, giving enterprise managers a monopoly on information and hindering their control by the owners (Mertlik 1995; Večerník 2001). The IPFs, now owners of much of the economy, were often controlled by the state controlled banks, leading to quite confusing ownership relations and an indirect continuation of (partial) state ownership or control of many enterprises. It also led to the continuation of soft bank credits and limited attention for micro-level restructuring. This, in combination with the earlier-mentioned lack of enforcement of regulations, resulted in a limited number of bankruptcies, especially in comparison with Hungary. In 1992-1996, 42,124 bankruptcies were filed in Hungary compared to 8,647 in the Czech Republic; completed bankruptcies amounted to respectively 9,476 and 1,563 (Kornai 2001: 1576-1578). Also, the state was not much concerned with building a transparent legal framework regulating business activities and financial transactions, leading to an increasing number of cases of 'tunnelling' (asset stripping) and fraud.

Klaus and his government enjoyed high popularity for a number of years, supported by the 'Czech Miracle' of the first part of the 1990s. Where most CEE countries suffered from prolonged economic crisis, until mid-1996 the Czech Republic seemed able to overcome the initial economic crisis with ease. The rapid economic decline of 1991 slowed down in 1992, after which the economy started to grow, to reach its 1989 level again in 1996. Even more particular in comparison with the other former state socialist countries was that this period was characterized by relatively modest declines in aggregate employment and very low unemployment rates. Registered unemployment only just exceeded the four percent in 1991, to fall again to maximum 3.5 percent in the 1991-1996 period. Indeed, the Czech Republic seemed for some time to be the exceptional case that managed to make the change from state socialism to capitalism in a smooth and painless way. The Klaus government was until 1997 also consistently

applauded by the international community for its radical reform stance, irrespective of the 'real' outcomes. Its neo-liberal and monetarist discourse very well fitted that of the international financial institutions.

The Klaus government started to lose its control however as of the second half of 1996. More and more it became apparent that the exclusive attention to the modification of a limited set of economic relations and conditions (aimed at creating a 'natural order'), was insufficient to change and redirect the functioning of economy and society. The lack of institutionalisation of the market, the lack of regulation of economic action and the confused ownership relations started to take their toll. Increasingly, micro-level restructuring lagged behind macro achievements, negatively affecting productivity and competitiveness. Also, banks and investment funds started to fail after fraud and corruption scandals, eroding the favourable financial conditions large enterprises had enjoyed. Also, the unwillingness of the ODS government to regulate the economy appeared less and less ideological and increasingly connected to corruption affecting practically the entire political scene (Innes 2001: 236).

The population was increasingly dissatisfied and expressed this in the 1996 elections. ODS remained the main political party with 68 seats but saw the fast-growing social democratic ČSSD come very close with 61 seats. Klaus was now faced with a strong centre-left opposition. Also, the governing coalition as a whole got only 99 seats and thus failed to get a majority in parliament. It managed to set up a minority government but never ruled as comfortably as before.

During 1997, banks, investment funds and companies continued to get further into trouble, bringing the weaknesses of the 'Czech miracle' further to the light. When after the elections the Central Bank adopted a more restrictive credit policy and increased interest rates, this resulted in an increase in bankruptcies and layoffs and ultimately in generalised economic downturn: investment was low, GDP started to decline slowly and unemployment rose from 3.9 per cent in 1996 to 4.8 per cent in 1997 and 6.5 per cent in 1998. The state budget was also affected and after severe criticism from the IMF Klaus introduced a series of austerity measures in the first half of 1997, including cuts in public sector wages. This crisis severely questioned Klaus's earlier image of a seasoned expert in economics. His position was further weakened by a long series of political mistakes,

intra-party opposition, and a party finance scandal. This multi-dimensional delegitimation made him and his government resign at last at the end of 1997. In January 1998 a caretaker government was installed to manage the country until the June elections.

Concerning Europe, ODS simply considered the Czech Republic as part of the Western European heritage, affected by a deviation in the state-socialist years: 'From the very beginning, the Czech state was a part of European and, in a narrower sense, of Western European civilisation. ... Czech understanding of man, society, state, economy and ethics has always been anchored in West European thinking.'[111]

Klaus was skeptical towards the European Union though. Based on the supposed success of economic and democratic reform, Klaus argued that 'we will be ready to join the EU earlier than the EU will be ready to accept us.'[112] In addition, he criticised the EU repeatedly for its protectionist and statist practices and its tendency towards over-regulation, a critique stemming from his particular interpretation of what the primary task of the EU should be: to develop a set of institutions that promote free trade and free markets (Bugge 2000: 30-31). This also underlined his basically nationalist attitude and contrasted with Havel's view of Europe as a historical, cultural and political entity (Bugge 2000).

However, Klaus did not reject the Union nor the prospect of membership. In practice, the Czech Republic did continue its dialogue with the EU and did present its formal application for membership in January 1996. Also, EU standards and requirements continued to have their influence on the design of rules and regulations.

Shaping new labour market institutions

Neo-corporatism restricted

The Klaus government formulated a new vision of the future of neo-corporatism in the Czech Republic in the fall of 1993. It reasoned that the RHSD had been useful for the transition period, in particular to maintain social peace in the context of economic crisis

[111] ODS Political Programme, adopted by the 6th Congress of ODS, Hradec Kralove, October 1995.
[112] Herald Tribune 1-2-1993, quoted in Bugge (2000: 5).

and rapid real wage decline. However, this use had come to an end. Klaus increasingly suggested that tripartism should have a strictly consultative character, that it should only focus on narrow labour issues, and that the government would soon withdraw from tripartite negotiations to take up the role of mediator between unions and employers which would negotiate in an essentially bipartite setting (Myant *et al.* 2000: 729; Potůček 1999; Kubínková 1999). The Klausites' rejection of any influence of unions and employers' organisations on government policy was gaining strength: 'It is not our aim to transfer state regulation from the state, which represents all citizens, to public corporations representing only group interests.'[113] Klaus argued that the state was under constant danger to become a slave of interest groups. Therefore, he deemed it necessary to directly reduce such influence and to decrease the size and role of the state, with the aim of reducing the possibilities for state capturing. And while people like Havel argued for a strong and organized civil society as a buffer between individual and state, Klaus, a true methodological individualist, maintained that associations are nothing but collectives of self-interested individuals, and are not to be involved in state matters (Leff 1997; Potůček 1999).

The unions opposed the downgrading of the RHSD. At the same time, they were somewhat afraid to strongly oppose these views because they feared Klaus might try to annihilate them completely, because they had little support in parliament, because their membership was declining, and because gradually they started to discover other ways to forward their interests. The employers were forced by to merge into the Confederation of Employers' and Business Associations by the government which was looking for ways to smoothen the operation of social dialogue (Cox and Mason 2000). From the start the weaker and less interested side of the council, the employers however continued to fail to influence its development.

The government could not however simply do away with the RHSD. General agreements were still conducted in 1993 and 1994, focusing among other things on social policy and labour legislation. They did give the social partners some influence on certain particular issues, however, at the same time there were instances in which the government

[113] ODS Political Programme, adopted by the 6th Congress of ODS, Hradec Kralove, October 1995.

failed to honour its commitments.[114] Tension between the government and the unions further mounted when the former refused to discuss social security reforms with the latter. In 1995, a change in tripartism took place as the government took the initiative to replace the RHSD by the Council for Dialogue of the Social Partners (RDSP), formalising its status as a purely consultative body and limiting the range of issues to be discussed to narrowly defined labour issues. According to Klaus, the Czech Republic had reached the end of the 'transition', which implied an end to the usefulness of tripartite negotiations. The new Council never actually reached agreement on any significant issue and 1995 was the first year in which no General Agreement was concluded. Klaus was not very interested in such an agreement anyway, and the unions gradually started to follow a more confrontational strategy. Hence, the new Council from the start had a fairly marginal position. At the same time, the industrial relations climate became more tense, including strikes in education and the railways.

Neo-corporatism only really got back on the agenda in late 1997, when the deepening economic crisis and growing social unrest prompted the politically weakened Klaus government to seek renewed co-operation. The myth of the easy Czech road to successful capitalism was by then completely discredited. The 'old' RHSD was reconstituted, including its former title and statutes, but it did not regain its former significance (Myant *et al.* 2000: 732). Although the government did make some concessions to the unions, at the same time it called for renewed wage restraint. The unions did welcome the renewed attempt at social dialogue, but they did so with scepticism and strong reservations. Indeed, although they participated in the reinstated RHSD they also continued their demonstrations and strike threats, and tried to accomplish the fall of the government, which eventually came about by the end of 1997.

Wage policy

The general market discourse of the ODS was also projected on the labour market: 'We consider the labour market to be a significant component of the market. We would like to

[114] For example, it failed to honour the commitment included in the 1993 General Agreement to legislate for broadening industry-wide collective agreements to non-signatory enterprises (Pollert 1999: 143).

apply rules governing freedom of contract and to minimise state intervention in these contracts. ... We do not agree with regulating the labour market, as it always has a negative impact on economic competitiveness.'[115] However, this view did not apply to the wage policy of the Klaus government. Where in the first half of 1992, under the OF government, wage regulation was reduced significantly, it was re-launched by Klaus after the 1992 elections. The character of wage regulations changed however, taking into account the negative effects on living standards of the real wage decline in 1991 and the social tensions this produced, as well as the objections by both unions and management against the undiscriminating egalitarianism of the earlier wage regulations (Rusnok and Fassmann 1998: 146). The renewed regulations did not anymore aim at real wage decline but rather at controlled real wage growth, allowing for a maximum of 5 percent real wage growth per year, independent from economic performance. From a macro, anti-inflationary instrument, wage regulations were turned into a micro-economic instrument and they were applied only to state enterprises, with the aim of preventing wages to eat away the substance of these enterprises before they were effectively privatized (Rusnok and Fassmann 1998: 146). This severely disadvantaged state enterprises compared to non-state enterprises and a significant wage gap emerged between the two sectors. Also, it made collective bargaining difficult in state enterprises.

The 5 percent limit was however extended to the whole economy after most the state enterprises were privatized in 1993-1994. This time, the government, in a blunt, interventionist manner, argued that it needed to supervise 'healthy wage developments' in the privatized enterprises because new owners had insufficient experience in asserting their ownership rights, because management was immature as regards collective bargaining, and because the insufficiently developed labour market and the insufficiently competitive environment provided no guarantee of a non-inflationary wage effect (Rusnok and Fassmann 1998: 147). In addition, wage control continued to be seen as useful to address budgetary problems, to maintain competitiveness in the international market as well as to maintain low unemployment.

One of the perverse effects of this regulation was that the 5 percent real growth limit more and more became a guideline, making wages rise more than they would have

[115] ODS Political Programme, adopted by the 6th Congress of ODS, Hradec Kralove, October 1995.

without such regulations (Rusnok and Fassmann 1998: 149-151). Indeed, in the 1992-1995 period, wages increased more than productivity and started to feed inflation instead of limiting it. This then finally caused the government to abolish wage regulations in July 1995 and to leave wage setting to the market and collective bargaining. This move was applauded both by the liberals and the unions. In the short-term there was however no downward effect on wage growth; real wages increased by 8.7 percent in both 1995 and 1996. This was a result of low unemployment, reasonably strong unions in some sectors and the partial continuation of soft budget constraints in many state-controlled enterprises.

Wage regulations were hence abolished largely because of their detrimental effect on inflation, and only to a lesser extent because of pressure of unions or contradictions with the market discourse. Indeed, for the monetarist neoliberals, including the IMF and the World Bank, somehow the labour market is the only area of the market economy where the market can be suspended at convenience to achieve other policy objectives. Wage restraint is with great ease incorporated into the discourse of the main promoters of the market. This issue came again to the fore once the Czech economy started to show signs of crisis in late 1996. The government reacted by adopting two restrictive policy packages in early 1997 with which it again interfered heavily in the labour market by freezing wages in the public sector and in the large enterprises still effectively owned by the state.[116] The renewed interest in wage moderation also explained the government's renewed interest in social dialogue, mentioned above: 'To solve the same problem in enterprises not owned by the state, we shall strive for maximum co-operation and understanding of our social partners, i.e. trade unions and employers.'[117] While this co-ordination was only partially achieved, the restrictive packages did have a decelerating effect on wage growth in the private sector and effectively slowed down aggregate real wage growth to 1.3 percent in 1997. For 1998 the government planned further wage cuts. The IMF fully supported this state intervention to limit inflation and balance the budget:

[116] 'Correction of Economic Policy and Other Transformation Measures', adopted by the Klaus government on April 16, 1997, and 'Czech Republic Government Coalition Stabilization and Recuperative Programme,' adopted by the Klaus government on May 28, 1997. Seen at http://www.vlada.cz/eng/vlada.htm at 10-10 2001.

[117] 'Correction of Economic Policy and Other Transformation Measures', adopted by the Klaus government on April 16, 1997. Seen at http://www.vlada.cz/eng/vlada.htm at 10-10 2001.

'Directors agree that wage constraint was key to continued adjustment ... They welcomed, therefore, the authorities' intention to reduce nominal wage growth in state-controlled enterprises sharply in 1998, which could have a favourable demonstration effect on other sectors ... They commended the authorities for the sizeable expenditure cuts announced in April-May 1997.'[118]

More in line with the market discourse was the treatment of the minimum wage. Klaus always argued against the minimum wage as a market-distorting factor. In addition, increasing the minimum wage was deemed to have unacceptable effects on the state because it was used as a basis for the calculation of a series of social benefits paid from the state budget. In line with this view, while the minimum wage was in 1991 set at CZK 2000, just over half of the average wage, in the 1992-1998 period it was reviewed only three times and gradually lost its real value to reach CZK 2650, or only 23 percent of the average wage. As a result, the minimum wage lost its function as an effective wage floor in the labour market.

Employment policy

Under the first Klaus government the low wage-low unemployment strategy prevalent under the first post-socialist government was gradually abandoned. First of all, in spite of wage regulations, real wages continuously increased in the 1992-1997 period, eroding the wage cushion created in 1991. One of the effects of this increase was that, in comparison with Hungary, until 1995 unit labour costs adjusted to purchasing power parity were lower in the Czech Republic, but surpassed the Hungarian level in 1995 (Večerník 2001).

Second was the rapid downscaling of active labour market policies. The participation in labour market policies creating jobs, of great importance in 1991-1992, declined enormously between 1992 and 1997. Whereas in 1992, 2.44 percent of the labour force was occupied through one or the other type of employment programme, in 1997 this percentage had plummeted to 0.59 percent (Table 1). Also, the total expenditure on labour market policies declined from 0.37 percent to 0.24 percent of GDP between

[118] IMF Press Information Note No. 98/12, March 6, 1998: IMF Concludes Article IV Consultation with the Czech Republic.

1992 and 1997, while the relative weight of unemployment benefits in this expenditure almost doubled from 45.3 percent to 86.1 percent.

Table 6.1 Participants in Active Labour Market Policies (% of labour force) and Expenditure on Labour Market Policies, Czech Republic, 1992-1997.

Labour market policies programmes	**1992**	**1997**
Jobs for graduates (placed individuals)	0.42	0.07
Socially purposeful jobs (placed individuals)	1.16	0.06
Publicly useful jobs (placed individuals)	0.49	0.23
Retraining (newly enrolled individuals)	0.34	0.22
Special workplaces for disabled (individuals)	0.03	0.01
Total	**2.44**	**0.59**
Total expenditure on labour market policies (% GDP)	**0.37**	**0.24**
- passive policies (% of total)	45.3	86.1
- active policies (% of total)	54.7	13.7

Source: Munich et al. 1999: 48-50, Table 8.1 and 8.3.

In any case, expenditure on labour market policies was low in post-socialist Czechoslovakia and the Czech Republic in international comparison as well as compared to Hungary (see chapter 7). The Klausites objected to labour market policies as such, put emphasis on the responsibility of individuals for their own fate, wanted to make unemployment benefits unattractive and unfeasible as an alternative labour market status, and wanted to limit expenditure. Stablilization and marketization were given priority over labour market policies aimed at creating employment and maintaining the income of the unemployed.

Labour market policies were not discontinued altogether however. True, the Klaus government very much emphasised individual responsibility, rejected a strong role for the state in social policy, and argued against a comprehensive welfare state. However, although it did implement substantial reforms in 1992-1997 in labour market policy, social assistance, health care, family policy and pension policy (Rueschemeyer and Wolchik 1999: 132), confronted with a public opinion in favour of generous social policies, it did so only gradually and cautiously.

As to labour legislation, in line with the market discourse, in 1994, the government eliminated employers' social security contributions for workers, reduced severance payment obligation of employers, made night shift work for women permissible, and gave employers the right to make temporary employees redundant without notice. There was strong protest against these initiatives from the side of the trade

unions, including a large union demonstration with some 40,000 participants, however, without any effect.

Although the wage cushion rapidly eroded and active labour market policies were downscaled, between1992 and mid-1996 aggregate employment remained more or less stable and unemployment remained low. One reason for this was the development of the new private sector, where many jobs were created. Another was the fact that, as discussed earlier, many of the (former) state enterprises still enjoyed certain types of state support, that bankruptcy and other regulations were not enforced, and more in general that many enterprises operated to some extent under 'soft budget constraints', avoiding immediate crisis and facilitating labour hoarding. This came to an end by late 1996 when a number of enterprises started to collapse after having stretched their 'survival' to the maximum, or started to shed labour to reduce costs. Aggregate employment started to decline for the first time since 1992, a process that would continue until 2000. However, as will be discussed in chapter 8, even then the difference in aggregate employment between the Czech Republic and Hungary continued to be firmly in favour of the former.

Collective bargaining

As far as collective bargaining is concerned, under the two Klaus governments unions continued to lose membership and influence and to face huge problems in organizing the new private sector and FDI companies. Union membership declined from 61 percent of employees in 1992 to 40 percent in 1997 (Hála et al 2002: 21, graph 1). Also the coverage of collective bargaining declined continuously, with the exception of 1995. In 1998, 1.4 million employees were covered by company collective agreements, equal to some 29 percent of all employed, and 522,000 by higher-level collective agreements. This decline was due first of all to the increasing reluctance and incapacity of employers' organizations to conclude such agreements, and to the failure of trade unions to force employers to be a serious counterpart at this level. It was also caused by a change in government policy concerning the extension of higher-level collective agreements. Following from its adversity to regulations and collective action, the Klaus government rejected the role of extending such collective agreements by the state. Hence, while in

1993, as a left-over of the previous government, higher-level collective agreements were extended to cover an addition 280 employers, by 1996 this practice had been abandoned (Hála et al 2002: 21).

Also, collective bargaining was obstructed by the long period of central wage regulations. Since they limited the space for bargaining on the key bargaining issue, they dampened interest in collective bargaining. In the short run the main effect in this sense was a lower share of workers covered by collective agreements than in the hypothetical alternative situation without wage regulations. In the longer run, five years of wage regulations may well have prevented collective bargaining from becoming a widely accepted and established mode of governance in the Czech Republic. This very much against the wish of trade unions which argued that collective agreements were of vital importance to compensate for the limited protection offered by labour legislation, to negotiate fair wages, and to set higher minimum wages to take over the function of the largely irrelevant legal minimum wage. As a result of the declining coverage of both types of collective agreements the definition of wages and working conditions was increasingly left to the market.

International actors

Like in Hungary, also for the Czech Republic it was in July 1997 that the European Commission recommended that negotiations for accession should be opened.[119] Hence, the formal adoption of the *Acquis Communautaire* as well as the participation of the Czech Republic in a series of EU activities started and also here the EU changed from a point of reference into a set of regulations and practices, laid down in the hard and the soft *acquis*, to which the Czech Republic had to align itself. In 1998 the Commission published its first so-called Regular Report, presenting its opinion on the progress made by the Czech Republic in the adoption of the *acquis*.[120] As a result, most of the direct effects and activities from the formal pre-accession process materialized under the next

[119] European Commission, Agenda 2000 - Commission Opinion on the Czech Republic's Application for Membership of the European Union, DOC/97/17, Brussels, 15th July 1997.
[120] European Commission, Regular Report from the Commission on the Czech Republic's Progress Towards Accession, Brussels, 1998.

government. In any case, the 1998 Regular Report points out that in the area of employment and labour market regulation little had been done by the Czech Republic to align itself with EU regulations.[121]

Compared to the Hungarian case, the direct influence of the IMF on policy making in the Czech Republic was of much less significance under the Klaus governments than under the Horn government. The Czech Republic depended much less on the Fund's support. Also, the stabilization and market-oriented discourse of Klaus fitted that of the IMF rather well and the latter applauded the government right up until the start of the economic crisis in late 1996. Still, once the crisis started the IMF was quick to criticize government policy and to put pressure on Klaus. In this way, it contributed to the adoption of the two austerity packages in 1997, including cuts in public sector wages. Hence, for a short period, until the fall of the government and also during the short reign of the caretaker government, the IMF did exert some quite direct influence.

6.4 The Czech Republic 1998-2002: the Zeman government

In the June 1998 elections the ČSSD and ODS changed places as first and second largest party with respectively 74 and 63 seats in parliament. However, neither of them managed to form a majority government, mainly because both rejected co-operation with the Communist Party. Like the ODS in the previous government, it was now the turn of the ČSSD to form a minority government with Miloš Zeman as the new Prime Minister. This government was based on the so-called 'Opposition Agreement' between the ČSSD and ODS, which permitted the former to run the country in exchange for a number of concessions to the latter. These included concessions in certain policy areas as well as the assignation of several key political positions to the ODS.[122]

Still, the ČSSD government constituted a clear break with the Klaus era in several areas. Zeman, identifying himself as a Keynesian, characterised the policies of the Klaus

[121] Ibid.
[122] The Opposition Agreement was widely criticised by the press, the smaller political parties and president Havel as a squandering of election promises and as an attempt of the two large parties to strengthen their dominant position in Czech politics at the expense of the smaller parties.

era as market fundamentalism and radical monetarism. The ČSSD had a different view: 'The Government considers its integral goal to be its contribution to the Czech society becoming a society of learning, participation and solidarity, and to this effect transforming itself into a modern society of the 21st century.'[123] To reach this goal, it presented a programme of solidarity and change, aimed at revitalising the crisis-rid economy. The ČSSD rejected the minimalist conception of the role of the state by the previous government, 'based on the unsustainable concept of the "weak state", "knowing nothing and responsible for nothing".'[124] It blamed this weak state for the absence of a legal framework for economic transformation, for corruption and for the economic crisis of the mid-1990s. It argued for a 'visible hand', i.e. an active role for the state in regulating the economy and in promoting sustainable economic growth. In addition, it argued that the state's fundamental role goes beyond its economic one: 'The State, from the point of view of Social Democracy draws its character and structure primarily from human rights, not from the market mechanism principle, and maintains its role as an immensely important means of humanizing the society.' [125] Hence, it also stressed the importance of social policy seen not as a gift but as a public service. In this respect, the then ČSSD chairman and Minister of Labour and Social Affairs Vladimir Spidla (presently EU Commissioner for Employment and Social Affairs) underlined his belief in the welfare state and argued that economic prosperity and social justice are not mutually exclusive.[126] Also the term social market economy appeared in the vocabulary of the new government.

Central to its economic policy was its focus on promoting investment and increasing competitiveness and productivity. It actively tried to attract strategic foreign investment with a series of incentives, including ten year tax holidays, zero customs for import of new technology and equipment and so on. Seemingly it was very successful in this sense, considering that the Czech Republic by 2002 had the highest FDI per capita stock in the entire CEE region, surpassing the 'traditional' leader in this respect: Hungary. According to the government, investment should be oriented towards sectors

[123] Policy Statement of the Government of the Czech Republic, Prague, August 1998, http://www.mzv.cz (seen 18-2-2000).
[124] ČSSD Election Programme 1998, www.cssd.cz (seen 18-2-2000).
[125] Ibid.

with a strong multiplier effect, i.e. infrastructure and housing. Also, the Zeman government played a much more active role in enterprise restructuring. To this effect, in 1999 it established the public Revitalisation Agency, which had the task of restructuring a number of troublesome large enterprises, including the major steel giants, without loosing their industrial and employment capacity (Večerník 2001).

Investment by the state was also directed towards education. The Zeman government argued that '...the qualifications of people are currently becoming a basic production factor. Only a society which is capable of making an investment into the lifelong education of its citizens, and in this respect into the development of their skills, will be able to achieve long-term success in international competition. ... Social spending, investment into human capital or into the development of the human potential is considered by the Government to be the most effective form of Government investment.'[127]

A further element of its economic policy was the speeding up of privatization, including the banks, which were largely in private hands by 2002. In addition it tried, to create a more transparent economy and more transparent corporate governance, and to fight corruption. Modeled on the Italian *Mani Puliti* it set up its own 'Operation Clean Hands'. Finally, contrary to the Klaus government, the new government accelerated the approximation to the *acquis*. The ČSSD profiled itself as a pro-EU party rejecting 'euro-scepticism and extreme nationalism' and supporting the deepening of the European integration process.

Having inherited an economy in crisis, under the ČSSD government, after an initial period of decline, economic results turned around. In 1999, GDP increased by 1.2 percent; in 2000-2002 growth accelerated, respectively 3.9 percent, 2.6 percent and 1.5 percent. Employment continued to decline until 2000, after which it stabilised.

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[126] Prague Post 18-4-2001. As examples Spidla pointed to countries like France and Germany.
[127] Policy Statement of the Government of the Czech Republic, Prague, August 1998, http://www.mzv.cz (seen 18-2-2000).

Neo-corporatism revived and extended

The Zeman government, returning largely to the position of the former dissidents, embraced a renewal of neo-corporatism and of other forms of citizens' participation in institution building and policy making. Such co-operation between state and civil society was seen not only as normatively correct, but, possibly more importantly, as cognitively imperative to reach the economic and social goals: 'To reach these goals an ongoing social dialogue and communication between the government, trade unions and other social organizations is needed.'[128] And: 'In close cooperation with the social partners the Government will increase the significance of tripartite talks and intends to sign a long-term pact of social stability with the partners.'[129] Hence, tripartite co-operation gained again in importance after the 1998 elections, following the initiative of the state (Kubínková 1999; Myant *et al.* 2000). The ČSSD was politically much closer to the trade unions and whereas the ČMKOS followed a deliberate strategy of political neutrality in the first half of the 1990s (Tomeš and Tkáč 1996), with the rise of de ČSSD it developed more and more explicit links with this political party. The ČSSD was also more willing to listen to employers' representatives. Attempts were made to conclude a long-term *Pact of Social Stability*. Such a pact was intended to harmonize the interests of all social groups and institutions, to enhance the performance and competitiveness of the Czech economy, and to facilitate EU accession. Also, it was supposed to be a 'specification of principles of the social-market economy, following the past successful development of Western European countries'.[130] However, the pact was postponed because it was politically not feasible for the minority government.

Still, neo-corporatism did move to central stage. The RHSD played a key role in the preparation of the 1999 amendment of the Employment Act and of the new Act on employee protection in case of insolvency of their employer in 2000. In addition, through a series of 'round tables' in 1999, the government tried to involve a wide range of organisations and experts in the preparation of a major amendment of the Labour Code

[128] ČSSD Election Programme 1998, www.cssd.cz (seen 18-2-2000).
[129] Policy Statement of the Government of the Czech Republic, Prague, August 1998, http://www.mzv.cz (seen 18-2-2000).
[130] 'The Strategy of the Ministry of Labour and Social Affairs to 2002', quoted in Večernik (2001).

(Kubínková 2001). This concerned first of all the social partners but also members of parliament, academics, judges and others. Because of the agreement reached among these participants on the draft text of the new Code, it was adopted without fundamental changes by parliament. It thus cemented a bilateral compromise between the social partners as well as one between the social partners and the government and was arguably a major instance of social partner influence on legislative developments. Also, the social democrats tried to involve unions and employers at lower levels (sectoral, regional) as well, and several regional Economic Councils were set up in 2000.

In addition, the ČSSD government looked for new forms of social dialogue to include a broader part of the population in the debate on employment and social policy and legislation. To this effect it established the 'Social Conference', a voluntary discussion platform headed by the Ministry of Labour and comprising representatives from various social groups (pensioners, disabled, tenants, etc.), foundations, non-profit organisations, community services, trade unions, employer associations and others (Kubínková 2001).

Clearly, the new government was more inclined to look for dialogue and consensus, and allowed social partners to have serious influence on policy and legislation. This concerned however mainly social and labour issues. On broader economic policy social dialogue essentially equaled consultation rather than negotiation among equals or co-decision. Also, social dialogue continued to depend very much on the interest and attitude of the government, instead of the independent strength of the social partners.

This was enough for the European Commission to positively evaluate developments concerning social dialogue in the Czech Republic: 'Tripartite social dialogue at national level continues to work well. Social partners are actively involved in the preparations for accession.'[131] Still, the Commission did see some shortcomings in the capacities of the social partners: 'At tripartite level, although social partners are already

[131] European Commission, '2001 Regular Report from the Commission on the Czech Republic's Progress Towards Accession,' Brussels, 13-11-2001.

actively involved in the preparations for accession, their ability to participate in the implementation of the relevant *acquis* should be strengthened.'[132]

Wage policy

The Zeman government's wage policy was based on several underlying ideas. One was its belief in competitiveness and productivity improvements as the main fundament for long-term sustainable economic growth, and its rejection of low wage strategies: 'The Government rejects the idea that it is cheap labour which could become our basic comparative advantage in the world competition of the globalized society. On the contrary, it holds the view that we should be able to break through by the effective utilization of qualified and well-paid labour with high productivity.'[133] Another was its conviction that it needed to keep the budget deficit as well as inflation under control, not so much because of a belief in monetarist philosophies (like Klaus) but because of its urge to prepare for EU accession, including compliance with the Maastricht criteria. Thirdly, the government wanted to increase employment rates and activate idle labour resources by 'Enhancing incentives for the unemployed for accepting available jobs by a marked promotion of income from work and discouraging reliance on social benefits.'[134] Finally, the government underlined the importance of social justice and of a steady improvement of living standards.

This resulted in a number of new wage policy elements. As far as the development of real wages is concerned, the government stressed the need for 'responsible' wage development in line with GDP growth: 'Real wage increases in relation to labour productivity growth should take into account the need to strengthen the profitability of investment and international competitiveness, whilst allowing a steady increase in purchasing power and private consumption.'[135] The government however favoured

[132] European Commission, '2002 Regular Report from the Commission on the Czech Republic's Progress Towards Accession,' Brussels, 09-10-2002.
[133] Policy Statement of the Government of the Czech Republic, Prague, August 1998, http://www.mzv.cz (seen 18-2-2000).
[134] Ministry of Labour and Social Affairs, 'National Employment Plan', 1999, http://www.mpsv.cz (seen 16-7-2001).
[135] Government of the Czech Republic and European Commission, 'Joint Assessment of the Employment Policy Priorities of the Czech Republic, 11 May 2000.

investment and enterprise competitiveness more than increasing private consumption: 'One of the key means of improving competitiveness will be to try to limit real wage growth to only two thirds of the growth in labour productivity.'[136] Zeman regularly stressed this point: 'I prefer investment, not consumption... only this is the good road toward the future.'[137]

The government's position was supported by the European Commission, co-signer of several documents in which it outlined this view. Trade unions argued that wage increases should fully follow productivity improvements, not less, but also not more, as argued by CMKOS president Richard Falbr: 'We are not interested in a wage increase that would be higher than productivity growth. This would cause inflation to increase.'[138] However, actual real wage developments in relation to productivity varied strongly. In 1998 and 2001, real wages developed largely in line with productivity. However, in 2000, real wages lagged productivity improvements by almost one percentage point, while in 1999 and 2002 wages grew much faster, the difference being 5.6 percentage points and 3.4 percentage point respectively. Over the entire government period this meant that wages continued to grow faster than productivity. Clearly, nor the government nor the unions were able or interested to control wage developments. Only in the year 2000 did budgetary considerations drive the government to take a tough stance on public sector wages, in spite of strong union protest, leading to declining real public sector wages. However, in other occasions, it deemed it opportune for political reasons to strengthen public sector wages. For example, in 2001, a pre-election year, public sector wages increased more than productivity and even outperformed private sector wages; in the election year both were far above productivity growth. As to the unions, in spite of CMKOS formal policy, wage developments suggest that enterprise and sectoral unions negotiated higher-than-productivity wage increases. Finally, it shows that the labour market is more and more run as a market. Wage increases may then stem for example from the fact that in this market, foreign investors, known to pay higher wages than

[136] Government of the Czech Republic and European Commission, 'Joint Assessment of the Economic Policy Priorities of the Czech Republic,' Brussels, 9-11-1999.
[137] Keynote Address by Miloš Zeman, Prime Minister of the Czech Republic, delivered on September 22, 2000 during the Program of Seminars of the 2000 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group.
[138] The Prague Post, 22-12-1999.

domestic companies, strongly increased their presence during this period, or from the fact that in regions like Prague the labour market continued to be very tight.

As far as the minimum wage is concerned, this was gradually increased in comparison with the average wage as well as the subsistence minimum after discussions with the social partners. Between 1999 and 2002, the minimum wage increased by 115 percent, from CZK 2650 to 5700, and further regular adjustment were planned. These increases were meant to motivate the unemployed to take up employment, to reduce dependency on unemployment benefits and other social benefits, and to improve the standard of living of the lowest-paid. Hence, they were argued to be designed simultaneously as an activation mechanism, a way to reduce social expenditure and a poverty reduction devise. And while there was some protest by employers, the number of people paid the minimum wage was low enough to avoid too strong fears concerning on competitiveness or employment.

An issue put on the agenda by union pressure was that of the non-payment of wages. This problem had been increasing with the emergence of the economic crisis and affected some 100.000 persons by 1999. It occurred often in companies that were uncompetitive but that continued to exist for motives of asset stripping. Hence, unions put strong pressure on the government to improve the bankruptcy law to make such companies to go bankrupt and to guarantee wage payment to the employees. As argued by CMKOS president Falbr: 'New bankruptcy legislation is needed because the old law enables a bankruptcy administrator to pilfer the company, to tunnel it. No creditors' rights are guaranteed. Hand-in-hand with a new bankruptcy law, insolvency legislation has to be approved.'[139] Employers' organizations largely supported this union demands for employee protection. It was strongly rejected by opposition leader Klaus: 'I can see no reason for taxpayers paying compensation for salaries (owed by) private and non-private companies. This is a bad path.'[140]

His protest was however in vain and in 2000 the Act on Protection of Employees in Event of their Employer's Insolvency (Act 118/2000 Coll.) was adopted. This Act implemented the corresponding EC Directive and hence was part of the EU accession

[139] The Prague Post 22-12-1999.
[140] The Prague Post 19-07-2000

procedure. However, the union pressure assured that this implementation became effective long before the planned schedule and in a way it could approve off. Through this Act, employees are entitled to the satisfaction of their outstanding wage claims, unpaid by their employer who is in the state of insolvency for maximum three months' pay.

Employment policy

On both normative and cognitive grounds the Zeman government had differed from previous governments on employment policy. Instead of the low wage-low unemployment strategy of the first government, or the quasi-market philosophy of the Klaus era, the Zeman government aimed to combine competitiveness, higher living standards and stronger labour rights. It wanted to create a highly qualified, flexible, and reasonably paid and protected labour force. This should allow the country to engage successfully in global competition and the population to reap benefits from engaging in this competition, through increased employment rates and gradually improving welfare. In achieving this, important roles were foreseen for the state, the market and the social partners. An additional objective was to bring employment policy and labour regulation in line with EU regulations and practices.

The new employment policy approach combined a number of old and new elements. Some of these have already been discussed above: the promotion of investment, restructuring and productivity improvements, expected to result among others in employment creation; and the wage policy. Further elements of the Czech employment policy, not unlike in Hungary, were often framed within the context of the European Employment Strategy. Much of the EES discourse was adopted in this four-year period, in which EU accession was the key political issue. Indeed, in this period the Czech Republic became incorporated within the EU institutional structure and policy community in preparation for future membership. The Czech Republic effectively started to 'shadow' the EES, including the production of a series of joint documents with the European Commission outlining policy priorities in the employment field and reviewing policy implementation. In fact, the 1999 National Employment Plan followed the EES

four pillar structure. However, the EES framework prescribed broad priorities ('employability', 'entrepreneurship', 'adaptability' and 'equal opportunities') and not detailed policies. Hence, while the EES discourse, structure and objectives were adopted to a large extent, actual policies were still a domestic product, reflecting in a non-marginal way domestic views, power relations and budgetary possibilities.

Within this context, expenditure on labour market policies was increased, the relation between active and passive labour market policies shifted in favour of the former, and increased emphasis was put on activation of the unemployed and reduction of welfare dependency. Expenditure on labour market policies increased from 0.28 percent of GDP to 0.44 percent in the 1998-2001 period, i.e. to a higher level than 1992, while the share of expenditure directed towards active employment policies was strongly increased and that of passive policies decreased (Table 6.2). Hence, the earlier tendency to downscale both expenditure and active labour market policies was reversed. The total number of people involved in the various kinds of labour market policies providing work- or training places was almost doubled in three years time. And while the number of registered unemployed increased by 42.4 percent, the percentage receiving unemployment benefits declined, from 48.8 percent to 34.9 percent.

Table 6.2 Participants in and Expenditure on Labour Market Policies, Czech Republic, 1998-2001.

Labour market policies programmes	**1998**	**2001**
Jobs for graduates (placed individuals)	9 232	9 645
Socially purposeful jobs (placed individuals)	8 178	21 767
Publicly useful jobs (placed individuals)	11 905	19 977
Retraining (newly enrolled individuals)	16 381	35 145
Special workplaces for disabled (individuals)	853	1 043
Total	**46 549**	**87 577**
Total expenditure on labour market policies (% GDP)	**0.28**	**0.44**
- passive policies (% of total)	82.1	56.8
- active policies (% of total)	17.9	43.2

Source: own calculations based on tables in Government of the Czech Republic (2002) 'Joint Assessment Paper Progress Report - The Czech Republic,' (http://www.mpsv.cz, seen 10-1-2004).

Another element of this employment policy was the assertion that competitiveness depends on the quality of the labour force, which has to continuously upgrade its knowledge and skills. As mentioned above, the Zeman government advocated for a learning society and considered investment in education as a major element of its

competitive strategy. In the labour market sphere, this was reflected in retraining being by far the most important active labour market policy (Table 6.2). Also, the government aimed to strengthen the links between educational institutions and enterprises, with the involvement of employers' organizations and trade unions, to assure that schools would teach knowledge and skills relevant to the labour market. Both aim to improve the employability of employees, unemployed and school-leavers.

In addition, next to quality, also the need for increased flexibility of the labour force was underlined by the Zeman government: '...the overall objective will be to develop policy responses that will lead to increased employment and flexibility in the labour market and the adaptability of the workforce.'[141] Modifications to the Labour Code were then made to create the legal conditions for more flexible working time schedules and part-time contracts. They also reduced weekly working time from the earlier 43 hours (in practice 42.5 hours) to 40 hours and reduced the amount of overtime that could be required from an employee. Also, annual leave was increased from three to four weeks, or, in case of employees in the non-competitive sphere, from four to five weeks.

This was expected to have three effects: greater competitiveness through more flexible use of labour, especially in the service sector; a reduction of effective working time per employee and a subsequent increase in employment; and better possibilities for employees to combine work and household responsibilities.

The above modifications to the Labour Code formed part of a maxi-amendment of the Code adopted in 2000 and coming into effect at the beginning of 2001. Amendment 2000 covered a wide range of issues including the possibility to negotiate severance pay without setting a maximum; it prohibited discrimination and promotes equal treatment of men and women; it aligned collective dismissal with the respective EU directive, requiring the employer to notify the competent trade union body (or works council) and labour office in writing at least 30 days before giving notice and to discuss measures to avoid or reduce the collective redundancy and mitigate its adverse effects; it introduced paternity leave; and it made some modifications to the industrial relations system,

[141] Government of the Czech Republic and European Commission, 'Joint Assessment of the Employment Policy Priorities of the Czech Republic, 11 May 2000.

providing employees with more ample information and consultation rights, introducing the possibility to establish works councils where no trade union is present, and introducing European Works Councils (however, the regulations concerning European Works Councils were scheduled only to come into effect at the moment the Czech Republic would become a member of the EU).

Amendment 2000 reduced the importance of market coordination, increasing the role of the state and to some extent also of trade unions. The amendment was to an important extent aimed to harmonise Czech labour legislation with EU regulations. However, as discussed above it was also locally driven, and several amendments are the outcome of comprehensive social dialogue under the ČSSD government. Hence, the Amendment 2000 can be argued to be the outcome of both endogenous and exogenous pressures. Also, it can be argued to address both some demands of employers and of employees. Still, the maxi-amendment was generally seen as most beneficiary to the employees (Vecernik 2001), providing them with additional rights and raising some of the minimum standards in the Labour Code. Minister of Labour Spidla argued that it was his proudest accomplishment, '...because it was the result of discussion, debate and finally agreement between highly competing interests.'[142]

Collective bargaining

The ČSSD government looked favourable upon the participation of social partners in the regulation of the labour market and favoured widespread collective bargaining in which unions and employers would find ways to combine increased competitiveness and flexibility with increased employee protection. Also, it tried to make sure that trade unions would not lose any of their formal rights and in fact, through some of the legislative amendments strengthened these rights, or assured that they would not negatively affect them. A good example of this is the institutionalization of works councils. Works councils were included in the amendment of the Labour Code in 2000 to fulfill EU accession criteria. However, this was done in such a way that it was not likely to have a strong effect on industrial relations in general or on the role of unions at the

[142] The Prague Post 19-07-2000.

enterprise level. Works councils can only be established in undertakings without trade unions (they cannot exist parallel to union structures), they have no competency for collective bargaining and cannot call strikes, and they can only exercise information and consultation rights within the meaning of the respective EU Directive. The councils thus cannot replace trade unions or exercise their core functions. Clearly, the Czech version of works councils solely aimed to satisfy the EU and not to change national practice in any meaningful way.

Still, a union-friendly government could not prevent that trade union membership continued its steady decline in this four-year period, falling from 40 percent of employees in 1997 to 24 percent by late 2000 (Hála et al 2002: 21, graph 1). Also the coverage of company collective agreements declined further, from 1.4 million in 1998 to about 1 million in 2001 (Hála et al 2002: 63, Table 9) and so did the direct coverage of higher-level collective agreements, from some 522,000 in 1998 to 447,000 in 2001 (Hála et al 2002: 43, Table 4). However, an important difference with earlier practices was that the social-democratic government, favouring a wider coverage of collective agreements, started to use the instrument of extensions. By 2001, some 288,000 employees were covered by higher-level collective agreements by virtue of extensions decided by the Ministry of Labour. In this way, the total coverage of higher-level agreements increased to some 735,000 in 2001. Hence, through increased state governance, associational governance was increased as well.

The European Commission, not entirely satisfied with bargaining practices, underlined the need to strengthen collective bargaining: 'As regards social dialogue, additional attention should be paid to further improvement of the system of extending collective agreements and to links between different levels of social dialogue. Bipartite social dialogue needs to be reinforced, especially at sectoral and enterprise levels, including in new private enterprises.[143]

[143] European Commission, '2002 Regular Report from the Commission on the Czech Republic's Progress Towards Accession,' Brussels, 09-10-2002.

Whereas Klaus was a friend of the IMF for most of the time, Zeman was much more skeptical on the international financial organizations and their past policies: 'I only regret that some of the subsidies from those resources were oriented towards dictatorships. Ceausescu, Marcos, Mobutu, Sese Seko and many others. When I visited Romania one year ago, I saw Ceausescu's palace. If you did not see, I can recommend. They told me it is the single building on the Earth, which might be seen from the Moon. Good recommendation, indeed. It consumed approximately one third of the Romanian GDP. And it was financed with help of the World Bank and IMF as far as I know.'[144] In any case, like in Hungary, the international financial institutions had by then lost much of their importance and were overtaken by the EU.

The Zeman government was decisively pro-Europe and preparation for accession was a central priority. Involvement in accession had similar effects as in Hungary. Interaction and co-operation with the EU on economic and social policy issues intensified, yearly Regular Reports were produced by the Commission, reviewing progress in adopting the *Acquis*, and the so-called Accession Partnership documents were elaborated, outlining short and medium-term policy priorities.

The Czech government and the Commission also started to conduct joint assessments of employment policy priorities, the Czech Republic started to shadow the EES, and labour legislation was aligned to EU regulations. Hence, also in the Czech Republic the EU stopped being a simple point of reference and started to become part of the policy making process. Still, EU regulations only affect a limited set of domestic regulations and they can also take a variety of shapes at the domestic level, as the example of the works councils shows. Nevertheless, to some extent the boundaries between domestic and EU policy became blurred.

As discussed also in the Hungarian case, the character of the influence of EU policies and regulations on labour market governance is a complex one. On the one hand, the adoption of EU directives translated into an extension of employee protection and to

[144] Keynote Address by Miloš Zeman, Prime Minister of the Czech Republic, delivered on September 22, 2000 during the Program of Seminars of the 2000 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group.

some extent the strengthening of the role of the state and the social partners, thus constraining market governance. However, at the same time, the *acquis* promoted further market coordination, fostering labour market flexibility and competition.

6.5 Conclusions

In the previous chapter the process of fourth order change, i.e. the abandonment of state socialism and the acceptance of democratic capitalism, was discussed, as it took place during the periods of extrication and the first governments in the two countries. As part of this fourth order change, basic capitalist labour market institutions were put in place, including basic contractual regulations, the right to strike and to collective bargaining, regulations allowing for pluralism in industrial relations, labour market policies, and others. However, in terms of third order change, the two cases showed a number of divergent developments, following from a different interplay between historical backgrounds, ideas, interests and actor relations.

In the present chapter, fourth order change has not anymore been the main issue, even though one could argue that the change from state socialism to capitalism is still an ongoing process. Also, this does not mean that the two cases have been characterized by continuity and stability. On the contrary, there have been a series of more and less profound changes at the third and lower orders, following from the continued interaction between historical backgrounds, ideas, interests and actor relations. As in the previous chapter, below I will summarise developments concerning ideas and interests, as well as concerning actor relations in the period after the first governments until 2002. Subsequently, I will provide a schematic overview of the developments on these dimensions in the entire post-socialist period.

Table 6.3 again summarises the main similarities and differences between the two cases in ideas and interests, concerning both the broader political economy as well as the labour market. As far as the broader political economy is concerned, in Hungary, in 1994-1998, the MSZP that dominated the government was ideationally heterogeneous, the two main 'camps' being the monetarist neo-liberals and the social democrats.

Table 6.3: Ideas and interests, HU (1994-2002) and CZ (1992-2002)	
Hungary	**Czechoslovakia**
Horn government (1994-1998)	***Klaus governments (1992-1997)***
MSZP ideationally heterogeneous: monetarist neo-liberals and social democrats. Unions support the latter.	Klaus monetarist neo-liberal, but also economic nationalist. Unions opposed, employers largely agreed.
Neo-liberals: neo-corporatism is obstacle to economic reform, but has role in labour market regulation. Social democrats, unions and most employers favour neo-corporatism.	Klaus: neo-corporatism is normatively illegitimate but cognitively temporarily useful to overcome crises. Unions and most employers favour neo-corporatism.
Government seeks reduction expenditure and inflation through wage and consumption decline. Unions want wage setting through collective bargaining.	Government for central control of wage growth to limit inflation and to promote employment. Unions want wage setting through collective bargaining. Employers ambiguous on wage control.
Government gives leaves employment creation to the market.	Government wants to leave employment partially to markets, but also to support it by wage control and soft budget constraints for many enterprises.
Government follows workfare philosophy: make unemployment unattractive through low benefits. Unions want to maintain benefits.	Government sees labour market policies as undue interference in market. Unions rather want more.
Unions favour widespread collective bargaining and extension of agreements; most employers have little interest in bargaining. State favours collective bargaining but not extensions.	Unions favour widespread collective bargaining and extension of agreements. Most employers have little interest in bargaining. Government has no interest in bargaining nor extensions.
IMF advocates structural adjustment and real wage decline.	IMF advocates structural adjustment and central wage regulation.
Consensus on importance EU membership	Consensus on importance EU membership
EU promotes markets, flexibility and workfare, but also employee protection and social dialogue.	EU promotes markets, flexibility and workfare, but also employee protection and social dialogue.
Orbán government (1998-2002)	***Zeman government (1998-2002)***
Government is nationalist conservative, promotes civic values, middle class, and family. Favours monetarism and markets, but also state role in economy to foster growth and employment.	Consensus on importance solidarity, active state in economy, promoting investment, innovation, employment. But also on privatization and stabilization, seen as important for EU accession.
Government sees neo-corporatism as illegitimate and obstacle to functioning of state and economy. Social partners for neo-corporatism.	Government sees neo-corporatism as normatively right and cognitively necessary to reach economic and social goals.
Government initially favours wage moderation, then wage expansion and decent minimum. Unions contest wage moderation, employers wage expansion.	Government favours well paid labour and decent minimum wage for high productivity and social justice. Unions want stronger wage improvements in line with productivity.
Government favours employment creation through markets but also investment promotion and support to SMEs , flexibility. Unions object to flexibilisation, employers favour it.	Government favours employment creation through investment promotion, competitiveness, flexibility and productivity. But also wants protected labour force. Unions and employers do not contest much.
Government: work instead of aid, linking of benefits to publicly useful activities, activation. Unions contest declining benefits.	Activation through training, decent wages and low benefits. Unions and employers do not contest much.
Government want to allow works councils to conclude collective agreements; unions object.	Government and unions favour collective bargaining and extensions, employers don't.
Consensus on importance EU membership	Consensus on importance EU membership.
EU promotes markets, flexibility and workfare, but also employee protection and social dialogue.	EU promotes markets, flexibility and workfare, but also employee protection and social dialogue.

The former advocated structural adjustment, market coordination and the rolling back of the welfare state. The latter, supported by the unions, disagreed especially on the welfare issue and favoured stronger social and employee rights. All agreed on the key role of FDI. They again disagreed on the role of neo-corporatism. The neo-liberals, following the declining power of trade unions, had little 'fear of society', argued that structural adjustment was more important than taking into account obstructive societal interests, and favoured a restricted role for neo-corporatism. The social democrats rather underlined the need to include societal interests in institutional reform on both normative grounds – to give main interest groups a place within the democratic process – and on cognitive grounds – to improve the quality of reforms. Unions and employers coincided with the social democrats on this, and also saw neo-corporatism as a way to further the interests of their members and to strengthen their own legitimacy.

In the Czech Republic, in 1992-1997, Klaus's ODS was more homogeneous. Klaus and the ODS were monetarist neo-liberals, arguing for structural adjustment, more and unregulated market coordination, and a minimal welfare state. They were however also nationalists and favoured the survival of the large Czech industrial enterprises as well as the continuation of links between the state, the large enterprises and the banks. In addition, they rejected participation of social partners in policy making on normative grounds and cognitively only accepted it as a temporary means to preserve social peace and facilitate reforms. Unions rejected much of the economic views of the government, while many employers were in favour, except that they preferred a more regulated market. Consensus continued to prevail in both countries concerning the goal of future EU membership. Also equal for the two cases was the relentless IMF insistence on structural adjustment.

Turning then to the labour market, in both cases the neo-liberals argued that wage developments should be in line with structural adjustment objectives and should therefore be subject to state control, be it through central wage regulations (Czech Republic), through the control of public sector wages and state control over tri-partite wage negotiations (Hungary), or control of the minimum wage (both). Hence, concerning wages they favoured state coordination over the market or collective bargaining. The

Hungarian social democrats as well as the unions in both countries rejected state wage control and advocated free collective bargaining. But also some employers, in particular in the Czech Republic, rejected wage limitations. Most employers, however, had little interests in collective bargaining in both countries and favoured the market in the setting of wages and working conditions. In Hungary, the neo-liberals accepted a role for collective bargaining but rejected extensions or agreements. In the Czech Republic the Klausites simply rejected collective bargaining as unacceptable collective action.

In terms of employment, in Hungary continued to be a consensus that employment creation and destruction should largely be left to the market. This included an increasing adherence to a workfare philosophy, including limited unemployment benefits and activation policies. The unions sometimes objected to the lowering of benefits since they argued that the market should be complemented by an extensive social safety net. In the Czech Republic, the Klausites' focus on support to the enterprise sector through soft budget constraints also had an employment preserving component. They however simply rejected labour market policies as undue interference in the labour market while they also argued for less employee protection. Unions rather argued for more protection and more comprehensive labour market policies, both in the interest of their members and in broader terms the losers of the transformation.

Finally, the EU constituted an ambiguous actor for both countries. On the one hand it was a fervent promoter of market coordination, flexibility and workfare; on the other it supported certain types of employee protection as well as social dialogue.

In 1998, after the elections in both countries, major changes occurred in this picture as far as the governments were concerned, while for the other actors there was little change. The nationalist-conservative FIDESZ led by Victor Orbán took a position as a defender of civic values, a strong middle class and the family. In terms of socio-economic policy, in continuity with the previous period, Orbán underlined structural adjustment and market coordination. However, especially since 2000, it also flirted with the idea of a more active state which takes up a stronger role in promoting economic and employment growth, leaving it not only to the market. It firmly rejected neo-corporatism as illegitimate and as an obstacle to the functioning of the state and the economy.

In the Czech Republic, the social democrats led by Zeman, not unlike in Hungary, in continuation with the previous period, advocated privatization and stabilization, also because it was seen as decisive for EU accession. But they also favoured a state that takes up an active role in the economy, regulating markets and fostering economic and employment growth and innovation. In addition, the social democrats underlined solidarity as a key value and considered investment in human resources as a key competitive element. In addition, they firmly subscribed to neo-corporatism, both from a normative and a cognitive point of view.

As far as wages are concerned, Orbán initially advocated wage moderation, to 'complete the transition'. However, as growth proceeded and elections came nearer he started to promote wage expansion, he started arguing for wage improvement to reap the benefits of a successful transition and to start closing the gap with the EU. The state should have taken an active role in this through the minimum wage and public sector wages. Zeman rejected low wage strategies and was in favour of creating a highly qualified and reasonably well paid workforce. Wages should however increase slower than productivity, in favour of competitiveness, the ultimate goal. The state was to have an active role in this through the management of public sector wages and a decent minimum wage. This would allow for engaging in global competition through quality and productivity, and for pursuing social justice.

Both governments saw, apart from the market, also a role for the state in stimulating employment creation through investment promotion and through a further flexibilisation of the labour market, this latter issue contested by the unions. In the Czech Republic, the government also favoured well-protected labour force, allowing them to be productive. It also supported widespread collective bargaining, including extensions. This was not the case in Hungary where extensions were rejected and works councils proposed as alternative bargaining actors. Finally, both governments favoured activation of the unemployed. Both wanted to achieve this through low benefits and increasing wages, in the case of Hungary combined with the linking of benefits to publicly useful activities, and in the Czech case with training.

Like in the previous chapter, to understand what ideas and interests actually informed policy making, we need to consider the relations between the actors (Table 6.4). The main point here is that, like during extrication and the first governments, in both countries the governments continued to be the dominant actors in shaping labour market institutions. As a result, the ideas and interests of the government, or of dominant factions within the governing parties, have been of primary importance for the character of institutional change. However, some governments more than others have shared this process of shaping with other actors, voluntarily or not. This has depended on their inclination to empower other actors, mainly through neo-corporatist arrangements, as well as on the power of the other actors in confrontation with the governments.

The Horn government and the MSZP clearly dominated government and parliament in Hungary between 1994 and 1998, with the opposition and the coalition partners being weak. It also dominated the IRC, largely suspending its influence when required and re-vamping it when convenient, and it 'betrayed' the trade unions, supposed to be a major ally. The main actors this government confronted were the MSZP itself, the IMF and the EU. As to the heterogeneous MSZP, its monetarist neo-liberal group dominated the social-democratic group, as shown by their imposition of the Bokros package.

At the same time, in the second half of the Horn government the social-democrats, supported by the unions, did manage to get more of their positions converted into policy. The IMF quite strongly played its cards, demanding structural adjustment in exchange for financial assistance, much needed because of Hungary's large debt. It was the main supporter of the MSZP monetarist neo-liberals and closely cooperated with them on the Bokros package and subsequent reforms, hence strongly influencing policy processes. By the end of this governmental period, the EU changed from being a point of reference into an actor directly influencing policy making as it started to impose a series of reforms as part of the accession procedure and to incorporate Hungary into the EU machinery. Most of this influence however materialized after 1998.

Table 6.4: Actor relations, HU (1994-2002) and CZ (1992-2002)	
Hungary	**Czechoslovakia**
Horn government (1994-1998)	**Klaus governments (1992-1997)**
MSZP dominates government and parliament, opposition weak. Monetarist neo-liberals within the MSZP dominate social-democrats.	Initially ODS strong and opposition weak. After 1996 elections ODS minority government and opposition more powerful.
Only limited 'fear of society' → tough reforms but not to the bottom.	Government propagates minimal social policy but actual social reforms are gradual and cautious.
'Betrayal' of trade unions by the MSZP imposing the Bokros package, links weakened.	Governments attacks unions regularly. Increasing links unions and ČSSD.
Continued infighting among unions. Continued membership loss, increased importance public sector unions. More protest, with some effect.	Unions remain unified but continue to lose members.
Employers' organisations remain weak.	Employers' organisations remain weak.
State-dominated tripartism. Initially state ignores IRC, then revamped with limited competence. Social partners get some institutional positions.	Neo-corporatism gradually downgraded by government towards consultation role. But renewed interest government when 1997 crisis emerges.
Employers in SMEs and FDI companies often hostile to trade unions.	Employers in SMEs and FDI companies often hostile to trade unions.
IMF demands reforms in exchange for financial support. Strong direct influence on policy.	IMF supports Klaus until 1997 crisis, then criticizes. Limited direct influence on 1997 crisis programme.
By end of period EU changed from point of reference to actor imposing series of reforms as part of accession procedure.	By end of period EU changed from point of reference to actor imposing series of reforms as part of the accession procedure.
Orbán government (1998-2002)	**Zeman government (1998-2002)**
Strong state centralizes decision making.	Minority government, opposition agreement.
Government marginalises neo-corporatism. Loss of institutional positions social partners.	Government revamps and extends neo-corporatism, real influence on labour and social policy.
Increased union cooperation. Some pressure put on government, especially in public sector.	Membership declines unions, but more influence on policy making.
Employers' organizations remain weak.	Employers' organizations remain weak.
Employers in SMEs and FDI companies often hostile to trade unions.	Employers in SMEs and FDI companies often hostile to trade unions.
State attacks exclusive union right to collective bargaining by empowering works councils.	State imposes extensions of collective bargaining and establishes 'straw' works councils to comply with EU regulations.
EU intervenes repeatedly in policy making processes imposing hard and soft *acquis*.	EU intervenes repeatedly in policy making processes through hard and soft *acquis*.
IMF not important.	IMF not important.

The first Klaus government held an even stronger position until 1996. It was internally not divided; the opposition was weak; it managed to downgrade neo-corporatism to mere consultation; and, because of a limited debt, it did not need IMF support. However, when the economy started to enter into crisis, Klaus started to face stronger opposition, reflected in the fact that he could not form a majority government after the 1996 elections. Worsening economic results also strengthened the position of the IMF, which indeed became to some extent involved in the 1997 crisis programme. In

addition, the crisis induced Klaus as well to look for renewed cooperation with unions and employers. Finally, like in Hungary, the EU became an increasingly important actor.

Employers remained the weakest actor in both countries under the Horn and Klaus governments. In Hungary, trade unions also further weakened because of loss of membership and continued infighting. Also, in SMEs and FDI companies, employers often continued their hostile stance towards unions. However, the union profile changed, with the public sector unions growing in importance. In the context of the Bokros package which especially hit the public sector, union protest increased. This strengthened the social-democratic part of the MSZP and led the government to provide social partners with some institutional position which allowed them to have some, clearly conditioned, influence of policy making.

In the Czech Republic, trade unions remained united but also continued to lose members. They were under continuous attack from the side of the government. However, they did strengthen their ties with the ČSSD, which in 1996 became the second party. Also here, in SMEs and FDI companies, employers often continued their hostile stance towards unions.

After the 1998 elections, Hungary got yet another dominant government, based on the more homogeneous FIDESZ party. It was not much bothered by the opposition while the IMF lost most of its importance in this period. It also managed to marginalize earlier neo-corporatist attempts, to take away a number of institutional positions from the social partners, and to attack trade unions in many occasions, also by empowering works councils to engage in collective bargaining in certain circumstances. Unions did start to cooperate more among themselves and attempted to put pressure on the government through protest, with some successes. Employers' organizations remained weak, while SMEs and FDI companies continued to reject unions.

A major difference with previous periods was the now quite constant intervention by the EU in domestic affairs. By imposing the (hard and soft) *acquis* the EU successfully demanded a wide range of reforms, leaving only marginal space for negotiations on their implementation. Hence, in the labour market context a number of directives had to be transposed in domestic legislation and employment policy had to be fine-tuned with the European Employment Strategy.

The Zeman government did not have a similarly dominant position as its Hungarian counterpart. Being a minority government, it had to accept a substantial influence of the opposition, formalized in the opposition agreement. Also, it reanimated Czech neo-corporatism, starting to consult social partners on broader socio-economic policy and offering them substantial real influence on labour and social policy. Especially trade unions regained much of their influence, contrary to their Hungarian counterparts. By extending collective agreements the government further strengthened the importance of social partners and to some extent remedied the problem that employers in SMEs and FDI companies continued to reject unions and collective bargaining. Equal to Hungary, a major difference with previous periods was the now quite constant intervention by the EU in domestic affairs.

As observed in the previous chapter, the influence of actors' ideas and interests is mediated by their power relations. Starting from the observation that the governments have throughout the period analysed in the present chapter clearly been the dominant actor and that the EU influence was fairly similar in the two cases, the main differences between the two in terms of actor relations are: (i) the strong influence of the IMF during the Horn government; (ii) the stronger position of the opposition on the minority government in the Czech Republic in 1996-2002; (iii) the stronger influence of trade unions during the Zeman government.

The reform trajectories that we can observe in the two countries hence first of all follow the ideas and interests of the governments, while they are adjusted for the ideas and interests of others when these manage to have influence. What should be emphasized here first of all is that there are some basic elements of both continuity and convergence. Reforms in the period discussed in this chapter were generally less profound or basic than those discussed in the previous chapter; hence, they build to a large extent on the new basis laid during extrication and under the first governments. Also, all governments have tried to reduce inflation and budget deficits, to further privatization, and to create a labour market which is to a large extent coordinated by market mechanisms and where unemployment is an unattractive and difficult to sustain status. In addition, all aimed for EU membership and especially under the Orbán and Zeman governments was the EU had an important role of convergence. There are however important differences between the

cases as to how and to what extent these objectives were pursued, some of them clearly anchored in the past.

The Horn government, in close cooperation with the IMF, implemented radical reforms to reduce wages, social benefits and consumption. Klaus, in spite of rhetoric, was much more moderate and rather tried to control wage growth and to gradually reduce benefits. The Horn government also continued the almost exclusively market-based approach of the Antall government where employment creation and destruction is concerned, while Klaus for several years continued a policy of soft budget constraints, among others to preserve employment. Under the Horn government, trade unions and employers' organizations were bypassed in the national tripartite council on most key reforms; however they were to some extent also empowered as they got a number of institutional positions and also some measures were implemented to promote collective bargaining. Klaus, on the contrary, did not offer much space to the social partners and did not promote collective bargaining.

Under Orbán much of the economic policy of previous governments were continued; however he gave the state a somewhat more active role in the economy, especially in fostering investment. Also the Zeman government argued for an active state, but with a broader mission: the promotion of investment and innovation, the development of human resources, the extension of collective agreements, training of the unemployed, etc. Also, where Orbán centralized power in the state by taking away most institutional positions from the social partners, Zeman rather empowered them by including them in decision making processes and by extending collective agreements. In addition, while governments implemented reforms to further flexibilise the labour market, in the Czech Republic, also under pressure from the trade unions, this was complemented by increased employee protection as well. Finally, both governments rejected low-wage strategies and in a variety of ways fostered wage growth and increases of the minimum wage. However, only in the Czech Republic this was done based on clear ideas concerning solidarity as well as in a strategic manner, as part of a clear employment and competitive strategy based on a highly-qualified, well-paid, and flexible-but-protected labour force. In Hungary, the rejection of low wages was not a matter of principle and also appeared only after two years of government; it was more a result of sustained economic growth

allowing for higher wages, as well as upcoming elections that led the government in a somewhat populist way to radically reverse its earlier stance.

6.6 Rejoinder: ideas, interests and actor relations in 1990-2002

How can we synthesize the 1990-2002 period, discussed in this and the previous chapter, in terms of ideas, interests and actor relations? In terms of ideas and interests, these shape the position of actors on the direction institutional change should take. The key issue that has been highlighted is that of consensus or a lack of consensus. In both cases there have been issues about which consensus largely prevailed and others where such consensus was absent. Consensus prevailed concerning the fact that capitalism is the appropriate system to pursue the modernization goals of economic development and prosperity. There was also consensus on the most basic elements of fourth order reform, concerning, among others, property rights, industrial relations (freedom of association, collective bargaining, etc.), or the basic features of the employment relationship. These basic characteristics represent a basic convergence when comparing the cases, in that both moved from state socialism towards democratic capitalism and adopted similar basic institutions to shape this new capitalist system.

However, where lower-order change is concerned, consensus prevailed only on some issues and not on others. Where consensus is lacking, contestation and conflict emerge. In this and the previous chapter I have amply discussed where such conflicts did and did not appear in the cases. I have also shown that we can observe major differences between the two cases. Conflicts and differences between the two cases emerged on the type of economy, society and labour market that should be pursued. On these questions, in very broad terms, neo-liberally oriented and social-democratically oriented normative views on solidarity, poverty, individualism, and the role of the state, the market and associations were contrasted in the two cases. Also in cognitive terms differences emerged on the way to reach objectives, i.e. on what effective labour market institutions are, again on the role of the state, the market and associations, as well as on the proper speed and order of change.

One major difference in this respect between the two cases should be highlighted. In Hungary from 1990 onwards there was much of a consensus that the creation and maintenance of employment should largely be left to the market. In the Czech Republic, however, apart from the market, also the state was considered to have an active role and responsibility in this by most if not all actors. As we have seen, this has been translated in different institutional developments in the two countries and in a much higher level of employment in the Czech Republic.

Table 6.3: Influence of actors on the labour market regimes, 1989-2002

	Étatism		Neo-corporatism		Imperialism	
	Government	**Opposition**	**Trade unions**	**Employers' org's**	**IMF**	**EU**
Extrication HU	X	XXX	X	-	-	-
Extrication CZ	-	XXXX	X	-	-	-
Antall	XXXX	-	X	X	XX	-
OF	XXX	-	XX	X	-	-
Horn	XXXX	-	X	X	XXX	X
Klaus 1	XXXX	-	X	-	-	-
Klaus 2	XXX	X	X	X	X	X
Orbán	XXXX	-	X	-	-	XX
Zeman	XXX	X	XX	X	-	XX

Note: - means virtually no influence, XXXX means the actor is clearly dominant.

As far as actor relations are concerned, table 6.3 illustrates the direct leverage of the various actors and groups them under the three ideal types of actor relations. Clearly, étatism has been dominant among the three ideal types. However, there have continuously been some neo-corporatist elements present in both countries, providing especially the Czech unions with some serious influence during the OF and Zeman governments. This fits the longer-term history of the Czech(oslovak) case where the first Klaus government rather appears to be an anomaly than the start of a new trend. As far as imperialism is concerned, this has been of bigger importance in Hungary than in the Czech Republic, because of the different power position of the IMF towards the indebted

Hungarian government. The EU became an important player by the end of the millennium in both cases.

As we will see in the next two chapters, the different interplay between ideas, interest and actor relations resulted in two distinct post-1989 trajectories in the two countries. This showed up in distinct institutional developments as well as different labour market structures. In very general terms, the Hungarian trajectory was much more market dominated and employment-unfriendly, while the Czech trajectory was a more social and employment-friendly one.

Chapter 7 Labour market institutions

The present chapter presents a detailed overview of the labour market institutions as they developed in the two countries in the 1990-2002 period. The aim is to determine more systematically and in more detail than in the previous chapters how the two labour markets vary from an ideal-type market regime. To this effect, I will compare how labour market, employment and wage policies, labour legislation and collective agreements, aimed to influence the creation and destruction of employment, labour market flexibility as well as the content of the individual employment relationship. Some overlap with the previous two chapters cannot be avoided here. However, in the present chapter, instead of discussing the processes underlying change, I provide a more schematic overview of the development of labour market institutions. The objective here is to outline how the characteristics of they changed over time as well as how they compare between the two countries at the end of the period under analysis.

7.1 Labour market and employment policy

The first group here are (i) labour market policies and (ii) employment policies. Labour market policies constitute a clearly defined set of rules and regulations, i.e. passive labour market policies (unemployment benefits) and active labour market policies (subsidies and services provided to jobseekers to improve their employment chances). The instruments pertaining to this policy field as well as the budgets destined to them are largely decided upon by the respective national governments, while execution fall to local and regional labour offices.

Throughout the period under study here, Hungary spent a higher percentage of GDP on labour market policies than the Czech Republic (Table 7.1). Indeed, in the Czech Republic expenditure on labour market policies has been below 0.5 percent of GDP throughout the period. It did vary over time however. This reflects the views of the government in power, it was the lowest in the years that Klaus was prime minister and higher before and after these years, when social-democrats were in power. Especially active labour market policies were diminished under Klaus, while unemployment benefits were to some extent maintained. However, in comparison with Hungary, it also reflects the fact that the employment rate has consistently been higher in the Czech Republic, the

difference being 10 percentage points or more during most of this period, and that the unemployment problems has been less pressing (see chapter 8). Still, expenditure remained low in international comparison.[145]

Table 7.1: Expenditure on labour market policies, % GDP, Czech Republic and Hungary, 1992-2001.

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic										
Total as percentage GDP	0.37	0.21	0.22	0.17	0.17	0.24	0.28	0.40	0.46	0.44
Passive measures (% total)	45.9	66.7	72.2	76.5	76.5	83.3	82.1	77.5	63.0	56.8
Active measures (% total)	54.1	33.3	27.3	23.5	23.5	16.7	17.9	22.5	37.0	43.2
Hungary										
Total as percentage GDP	2.81	2.79	1.83	1.33	1.13	1.07	1.01	0.96	0.86	0.84
Passive measures (% total)	78.5	76.4	66.5	68.1	66.9	58.9	61.4	58.6	54.7	45.8
Active measures (% total)	21.5	23.6	33.5	31.9	33.1	41.1	38.6	41.4	45.3	54.2

Sources: Večernik 2001: 56, table 4.4; as well as unnumbered table included in Government of the Czech Republic, 'Joint Assessment Paper Progress Report - The Czech Republic,' May 2002. Hungarian Ministry of Employment and Labour.

In Hungary, the main trend concerning labour market policy expenditure has been its continuous decline. Whereas in 1992 expenditure amounted still to 2.81 percent of GDP, by 2001 it had decline to 0.84 percent (Table 7.1). To a large extent, this reflects the tightening of unemployment benefits, in terms of eligibility criteria, duration and replacement rates, after the optimism in the early 1990s on the quick replacement of job losses by newly created jobs in the private sector was replaced by consistently low employment rates and high unemployment.

The tightening of unemployment benefits in real terms and in terms of eligibility has been a feature of both countries. In the Czech Republic, the first unemployment benefit scheme dated back to 1967 and concerned unemployment because of company restructuring (Table 7.2). In 1990, a new system was devised with a 12 months duration period and replacement rates between 60-90 percent. Progressively, criteria were tightened over the 1990s, and in 2001, duration was maximum 6 months (except in the case of training), replacement rates were between 40-60 percent, and to be eligible the unemployed should have worked for at least 12 months in the last three years (Table 7.2).

In Hungary, an income support scheme for the unemployed was devised in 1986, concerning collective dismissals following from enterprise restructuring (Table 7.3). In

[145] For example, the unweighted average in the EU, in the period 1996-2002, was 2.7 percent of GDP (European Commission 2004: 69, table 28).

1989, a state-financed unemployment benefit scheme was introduced, providing for unemployment benefits and a temporary allowance resembling social assistance. With the adoption of the Employment Act in 1991, a system of unemployment insurance was introduced, with entitlements of between 6-24 months depending on the employment history, and with benefits amounting to first 70 percent and later 50 percent of previous earnings (Table 7.3). The new system also included a school-leaver benefit of 75 percent of the minimum wage for those having difficulty finding their first job. It still reflected a sense of optimism and expectations that unemployment would be a temporary phenomenon.

In the following years the system was adjusted frequently. With unemployment increasing, in 1992 means-tested social assistance of unlimited duration was introduced for the long-term unemployed for whom the period of eligibility to unemployment benefits was expiring. Also, the duration of unemployment benefits was reduced to one-and-a-half years in 1992 and 1 year in 1993, the level of unemployment benefits was slightly adjusted in 1993, while its maximum was decreased from three times the minimum wage to two times the minimum wage.

In 1995 onwards a further series of downward adjustments were made to the system. First the school-leaver benefit was reduced to be abolished in 1996. Also in 1996, unemployment assistance was limited to maximum two years. In subsequent years unemployment benefits were limited to 270 days, benefits were set at 65 percent of previous earnings and the maximum was lowered to twice the minimum old age pension. Unemployment assistance was replaced by regular social assistance but the level remained the same (Table 7.3).

Table 7.2: Unemployment benefit schemes 1967-2001, Czech Republic (Czechoslovakia).

Year	1967	1990	1991	1992	1999	2002
Innovation	Introduction compensation restructuring	Introduction unemployment benefits	Lower benefits	Shorter duration benefits, definition of maximum level	Lower benefit rates, higher maximum	Most recent state of affairs
Duration benefit	12 months	12 months	12 months	6 months. When in retraining benefit for full period.	6 months. When in retraining benefit for full period.	6 months. When in retraining benefit for full period.
Eligibility	Dismissed because of the re-organisation or rationalisation and unable to find job despite assistance from previous employer and local administration	7 day waiting period.	At least 12 months of employment in last three years; or engaged in retraining. 7 day waiting period. Exhaustion severance pay.	At least 12 months of employment in last three years; or engaged in retraining. 7 day waiting period. Exhaustion severance pay.	At least 12 months of employment in last three years; or engaged in retraining. 7 day waiting period. Exhaustion severance pay.	At least 12 months of employment in last three years; or engaged in retraining. 7 day waiting period. Exhaustion severance pay.
Benefit rate	60 % of the monthly income to a maximum of Kčs 1800 in the first 6 months and 30 per cent (maximum Kčs 900) in the next 6 months.	60% of average earnings in previous job; or 90% if the job was lost due to restructuring.	60% average earnings in previous job for first six months; 50% for second six months; 70% when engaged in retraining.* No maximum, minimum equal to subsistence minimum.	60% average earnings in previous job for first three months; 50% for second three months; 70% when engaged in retraining. Maximum 1.5 times the minimum subsistence level, 1.8 times when in retraining.	50% average earnings in previous job for first three months; 40% for second three months; 60% when engaged in retraining. Maximum 2.5 times the minimum subsistence level, 2.8 times when in retraining.	50% average earnings in previous job for first three months; 40% for second three months; 60% when engaged in retraining. Maximum 2.5 times the minimum subsistence level, 2.8 times when in retraining.
Source of finance	State budget	State budget	State budget	State budget	State budget	State budget

* These are the rates as they stood in the Employment Act. The 1991 General Agreement raised the first two to 65 per cent and 60 per cent respectively.
Sources: own elaboration based on Altmann 1987, Employment Act.

Table 7.3: Unemployment benefit schemes 1986-2001, Hungary.

Year	1986	1989	1991	1992-93	1995-96	1997-2001
Major innovations	Introduction first income support scheme for unemployment resulting from enterprise restructuring	Introduction first unemployment benefit scheme including unemployment benefits (UB) and a temporary allowance (TA)	Adoption Employment Act including Unemployment Insurance (UI) and School-leavers Benefit (SB)	Introduction means-tested Unemployment Assistance (UA) for those who's UI benefit expires; equal to 80% of minimum old-age pension (1992).	Abolition school-leavers benefit (1996)	Abolition means-tested Unemployment Assistance, replaced by means-tested Regular Social Assistance for Unemployed Persons of Economically active Age (RSA); equal to 80% of minimum old-age pension (2000)
Changes in duration benefit	Maximum 1 year	UB: maximum 1 year in a 3 year period TA: maximum 1 year	UI: 6 months-2 years, depending on length previous employment. SB: maximum 6 months	UI: 135 days-1.5 years (1992) and 90 days-1 year (1993) depending on length previous employment. UA: unlimited.	UA: 2 years	UI: Depends on length previous employment. 5 days of employment = 1 day of benefit eligibility. Min. 40–max. 270 days. If employment was terminated by ordinary notice by employee, or by extraordinary dismissal by employer: 90 days waiting period.
Changes in eligibility criteria	Being part of the dismissal of at least 10 employees at a company	UB: 18 months employment in previous 3 years TA: expiration unemployment benefit	UI: 12 months insured employment in the previous 4 years SB: Graduation in past 2 years from secondary school or higher education, waiting period of 3 months.			At least 200 days spent in employment in the previous 4 years
Changes in benefit rate	First six months: previous average salary Second six months: for 3 months 75% and for three months 60% of previous net earnings	UB: 70% of previous gross earnings for first 6 months, then 60%. These rates are 65% and 55% if voluntary quitting with notice and 60% and 50% without notice. Max.: 3x minimum wage. TA: 75% of previous unemployment benefit. Max.: 2x minimum wage.	UI: 70% of previous gross earnings in first half entitlement period, 50% in second half. Minimum benefit is the minimum wage (or the previous wage if this was lower than the minimum wage); maximum benefit is 3 times the minimum wage. SB: 75% minimum wage.	UI: 75% of previous gross earnings in first third of entitlement period, 60% in rest of period (1993). Maximum benefit is 2 times the minimum wage (1992)	SB: 80% of minimum old-age pension (1995).	65% of the average earnings (calculated according to the personal base wage) in the previous 4 calendar quarters. The minimum benefit equals 90% of the minimum old-age pension, the maximum twice this pension. If the average income was lower than the minimum unemployment benefit, the unemployment benefit shall be equal to the average income.
Source of finance	State budget	State budget	UI and SB: Employer and employee contributions	UA: State and local governments budgets		RSA: State and local governments budgets

Sources: Own elaboration based on Employment Act; Lázár et al. 1991; Micklewright 1992; Nagy 2002.

Table 7.4: Percentage of unemployed receiving unemployment benefits, Czech Republic and Hungary, 1991-2001.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CZ	65	52.6	47.2	47.5	45.7	47	50.7	48.8	43.7	37.5	34.9
HU	77.1	68	59.6	57.3	62	56.5	51.3	49.4	51.8	49.8	49.7

Sources: Fazekas, Károly and Koltay, Jenő (2003); Večerník (2001); unnumbered table in Government of the Czech Republic, 'Joint Assessment Paper Progress Report - The Czech Republic,' May 2002.

One general trend in both countries has hence been the downward adjustment of the level and duration of benefits. Also, eligibility criteria have been adjusted over time in both cases, leading to a decline in the share of the unemployed that receive benefits (Table 7.4). Between 1991 and 2001 this share decline from 65 to 34.9 percent in the Czech Republic and from 77.1 to 49.7 percent in Hungary. Comparing the two systems, the Czech system has been the stricter one over time and the percentage of unemployed receiving benefits has consistently been lower than in Hungary. It was only above 50 percent under the OF government in the early 1990s to decline afterwards. Noticeable is as well that it has declined fastest after 1998, under the social-democratic Zeman government. In the terms of Gallie and Paugham (2000, chapter 3), we can then conclude that where unemployment benefits are concerned, in both countries at the start of post-socialist transformation, a universalistic unemployment welfare regime was established; within the course of some ten years, through periodic small modifications or 'gradual transformation (Streeck and Thelen 2005), this was subsequently transformed into a liberal-minimal regime.

Indeed, in the Czech Republic labour market policies were given importance mainly under the OF government, which saw unemployment benefits as a shock absorber compensating for loss of earnings, and active labour market as important in supporting structural change and re-employment under its low wage-low unemployment strategy. This is illustrated by the data on participation in active labour market policies (Table 7.5). In 1992, still under the OF government, 77.6 percent of the unemployed (equal to 2.5 percent of the labour force) participated in one or the other type of active labour market policies, especially through so-called socially useful jobs which involve substantial state subsidies on employment. Already in 1993, under Klaus, participation plummeted to under 30 percent of the unemployed and in 1997 it had reached a low of 13.8 percent. Under Zeman labour market policies gained somewhat in importance, however, in 2001 participation was still below 20

percent. Active policies did get a higher share of expenditure allocated (Table 7.1) but because unemployment increased substantially since 1997 participation remained low.

Table 7.5: Participation in active labour market policies, Czech Republic and Hungary, 1992-2001 (thousands)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic										
Jobs for school-leavers										
placed job-seekers	-	7.4	6.8	5.3	5.0	3.5	9.2	10.9	11.3	9.6
Socially useful jobs										
placed job-seekers	82.3	12.2	9.9	6.6	4.1	2.9	8.1	15.8	26.7	21.8
Public works										
placed job-seekers	25.5	11.8	12.9	10.8	10.3	11.9	11.9	16.1	20.0	20.0
Retraining										
new participants	17.6	12.1	14.8	13.5	12.1	11.5	16.4	22.9	33.3	35.1
Disabled										
jobs created	1.4	1.0	0.9	0.8	0.6	0.5	0.9	1.1	1.4	1.0
Total	**126.8**	**44.5**	**45.3**	**37.0**	**32.1**	**30.3**	**46.5**	**66.8**	**92.7**	**87.5**
as % registered unemployed	77.6	28.7	26.3	23.8	20.0	13.8	14.9	15.1	19.7	19.7
as % labour force	2.5	0.9	0.9	0.7	0.6	0.6	0.9	1.3	1.8	1.7
Hungary										
Public works										
Participants	18.2	26.0	28.7	21.7	38.5	38.9	37.4	35.7	26.7	29.0
Retraining										
Participants	27.4	30.1	31.2	20.4	20.6	25.1	24.5	28.0	25.3	30.0
Wage subsidy										
Participants	7.7	14.8	23.9	10.9	16.4	29.7	30.9	31.1	27.5	25.8
Others										
Participants	20.6	45.2	61.7	64.7	74.5	95.7	86.7	60.6	73.5	37.2
Total	**73.9**	**116.1**	**145.5**	**117.7**	**150.0**	**189.4**	**179.5**	**155.4**	**153.0**	**122.0**
as % registered unemployed	13.3	17.3	25.6	23.2	30.0	40.3	42.4	37.9	39.2	33.5
as % labour force	1.6	2.7	3.5	2.9	3.7	4.7	4.5	3.8	3.7	3.0

Sources Czech Republic: own calculations based on data from the Ministry of Labour and Social Affairs, the Labour Force Survey, as well as unnumbered tables included in Government of the Czech Republic, 'Joint Assessment Paper Progress Report - The Czech Republic,' May 2002.
Sources Hungary: Own calculations based on LFS, data from the National Labour Centre and Fazekas and Koltay (2003:165, table 5.8).

In Hungary, active labour market policies were rather unimportant in the early 1990s when the Antall government suffered from its 'fear of society' which made it focus more on income maintenance. E.g. only 13.3 percent of the unemployed participated in active programmes in 1992. Under the Horn government active labour market policies started to replace passive ones following its attempt to roll back the welfare state and its move towards workfare. The workfare philosophy was fully adopted by the Orbán government and inspired it to further accentuate active policies at the cost of passive ones. However, since it continued to decrease total expenditure on labour market policies, participation in active programmes declined slowly. The importance

of the various types of active policies varied over time, but with the exception of the emphasis on socially purposeful jobs in the Czech Republic under the OF no clear trends can be distinguished.

The comparatively low amount of funds spent on labour market policies in the Czech Republic could be interpreted as contradicting the claims made in earlier chapters that employment objectives played a much more central role in Czech policy making than in Hungary. Indeed, low expenditure on labour market policies could be interpreted as favouring the market over other types of co-ordination. However, firstly, as mentioned before, the level of employment has consistently been much higher in the Czech Republic than in Hungary, making policies for the unemployed less of a priority, both concerning income maintenance and reintegration. Secondly, and more fundamentally, in the Czech Republic policy makers have pursued the maintenance and creation of employment through other means. Much has been said about this in the previous chapters so here I will only summarise these other means.

Table 7.6 presents a brief comparison of the main regulations and policies which have as objective (among others) the creation or preservation of employment, as discussed in the previous chapters. Several issues stand out. One is the continued prevalence of soft budget constraints in the Czech Republic between 1990-1997 as compared to the hard budget constraints imposed by the market in Hungary. This includes the enforcement of bankruptcy legislation, weak in the Czech Republic and much stronger in Hungary. Hard budget constraints and strict bankruptcy enforcement have in this period led to much more employment decline in Hungary than in the Czech Republic. Indeed, in the latter the socio-economic policy was much more employment friendly. This was further evidence in 1990-1992 by the low wage-low unemployment strategy followed in Czechoslovakia, including a high number of publicly subsidized jobs, a real wage decline and ample support to SMEs. Under the Klaus governments this low wage-low unemployment strategy was gradually abandoned but efforts were still made to control labour costs.

In Hungary such policies were absent as it rather opted for the market and aimed to attract high amounts of FDI. The result was an enormous decline in employment and while in 1989 the number of people employed was almost equal in the two countries (5.5 million in Hungary compared to 5.4 million in the Czech part of Czechoslovakia), by 1996, in Hungary almost 2 million jobs were lost compared to around half a million in the Czech Republic (see chapter 8).

Table 7.6: Comparison of policies with employment promotion objectives, Czech Republic and Hungary, 1990-2002

Czech Republic	Hungary
1990-1992	*1990-1994*
Soft budget constraints for large enterprises through continuation of certain types of state support and close linkages with banks.	Hard budget constraints through market coordination, occasional state support to bail out individual enterprises.
Medium importance given to attracting FDI.	High importance given to attracting FDI.
Weak enforcement of bankruptcy legislation.	Strong enforcement of bankruptcy legislation.
Low wage-low unemployment strategy, including a large decline in real wages; active labour market policies creating around 200,000 jobs; ample support to job creation in SMEs.	Limited importance given to active labour market policies or SME support; slower decline in wages.
1992-1998	*1994-1998*
Soft budget constraints for large enterprises through continuation of certain types of state support and close linkages with banks.	Hard budget constraints through market coordination.
Weak enforcement of bankruptcy legislation; bankruptcies filed in 1992-1996: 8,647.	Strong enforcement of bankruptcy legislation; bankruptcies filed in 1992-1996: 42,124.
Minimal importance to any type of labour market policies.	Limited importance given to active labour market policies.
Control of labour costs through centrally controlled wage growth in 1992-1995 and reduction public sector wages in 1997.	Reduction labour costs through reduction wages, taxes and social contributions.
Low importance given to attracting FDI.	High importance given to attracting FDI.
1998-2002	*1998-2002*
Reduction working week; increase annual leave.	
Increasing possibilities for labour market flexibility through non-standard contracts and flexible working time arrangements.	Increasing possibilities for labour market flexibility through non-standard contracts and flexible working time arrangements.
Growing public investment in infrastructure, housing. State-led revitalization of large enterprises in trouble.	Growing public investment in infrastructure.
Promotion of investment through incentives.	Promotion of investment through incentives.
Growing importance to labour market policies, increasing emphasis on active policies.	Declining importance to labour market policies, increasing emphasis on active policies.
High importance given to attracting FDI.	High importance given to attracting FDI.

It was only in the late 1990s that policies in the two countries started to resemble each other more. Since the 1997 crisis budget constraints were hardened as well in the Czech Republic, increasing the importance of the market. Also, in both countries, following to some extent the lead of the European Employment Strategy, increased labour market flexibility through non-standard contracts and flexible working time schedules became a priority, among others with the objective to create more employment. This again strengthened the role of the market. One of the differences was the reduction of working time, both through a shortening of the working week and an increase in annual leave in the Czech Republic, expected to lead to an increase in the number of persons employed. In addition, both countries started to provide more investment incentives and to develop more infrastructural works, and the Czech Republic started to give more importance to attracting FDI. This implied again an

important role for the state in the promotion of job creation in the private and the public sector.

To conclude this section, one remark remains to be made. Whereas in the first eight post-socialist years employment policy diverged strongly between the two countries, since 1998 there has been substantial convergence. However, whereas the approaches in the two countries have become similar, as will be discussed in detail in the next chapter, the respective labour markets show many differences, which emerged during the first half of the 1990s. Paramount among these is again the much higher employment rate in the Czech Republic.

7.2 Wage policy

The second group of regulations and policies to be discussed are wage policies. Table 7.7 presents a summary of wage policies in the period 1990-2002. Both countries started out with centralised wage control through punitive taxes on wage increases, limiting the market to an important extent. Initially, this was much more severe in Czechoslovakia, leading to a huge real wage decline. However, by mid-1992, wage control was transformed into controlled real wage growth, starting a path of continuous wage growth. In 1995 central wage control was abolished. In Hungary control was less severe and lasted only until 1992. Still, first by state-dominated tripartite agreements and then, in 1995 and 1996 by state-imposed reductions of public sectors wages under the Bokros package, real wages continued to decline until 1996 (with the exception of the election year 1994). Hence, while the initial centrally-devised wage decline in the Czech Republic was brief and deep, in Hungary the decline was more prolonged and in the end had a much more depressing effect on wages (see chapter 8).

Starting in 1992 in Hungary and in 1995 in the Czech Republic, wage setting in the competitive sphere became largely a matter of the market and of collective bargaining. Especially in Hungary also national tripartite agreements recommending minimum and maximum limits to wage developments played a role, with the exception of 1995 and 2000 when no agreements could be reached. But as argued in previous chapters, these negotiations have been heavily dominated by the state.

Table 7.7: Wage policy, the Czech Republic and Hungary, 1990-2002

Czech Republic	Hungary
1990-1992	*1990-1994*
Centralised wage control for medium and large enterprises to force wages to decline strongly as part of low wage-low unemployment strategy included in 1991 Central Agreement. Also minimum wage set by Central Agreement.	In 1990-1992: phasing out of tax-based incomes policy. Then centralised wage control replaced by tripartite negotiations which set minimum wage and produced recommendation on wage increases for lower-level bargaining.
Public sector wages were also centrally set after negotiations in the tripartite council.	In budgetary sector, wage tariffs are set by law, but influenced by negotiations in Interest Reconciliation Council for Budgetary Institutions.
1992 Central Agreement exempts much of private enterprises and joint ventures temporarily from central wage control.	In 1990-1993, IRC set conditions for average real wages decline. In 1994, government increased public sector wages before elections.
1992-1998	*1994-1998*
Central wage control re-launched in 1992 after elections, allowing for controlled wage growth (up to 5% real growth), and extended to whole economy. Abolished in 1995.	Strong reduction of real public sector wages in 1995-1996 under Bokros package.
In 1997 crisis, wages in the public sector and in the large enterprises still effectively owned by the state were frozen.	In 1995 for first time no wage recommendations in IRC. In 1996-1998 joint recommendations on wage increases and minimum wage set by IRC.
Minimum wage was left to loose their real value.	
1998-2002	*1998-2002*
Government tried to limit real wage growth to two thirds of growth in labour productivity. However, government nor unions could control wage developments at micro level.	Interest Reconciliation Council for Budgetary Institutions was dissolved, effectively ending national wage negotiations for public services
Problem of non-payment of wages addressed by improved bankruptcy and insolvency legislation	In 2000, for second time no joint recommendation on wage increases. Also, the government deprived NLC of its exclusive right to set minimum wage.
In 2000 government caused real wage decline in public sector. However, 2001, before the elections public sector wages were raised substantially.	High wage increases for several groups of employees in public sector awarded by government.
Minimum wage was increased regularly to recover real value.	Dramatic increases in the minimum wage in 2001 and 2002, unilaterally decided by the government.

In both countries wage setting in the public sector has remained more firmly in the hands of the state, even though also these were subject to tripartite deliberations in most of the period. As a result, the state sometimes raised public sector wages in function of elections or to defuse protest, while at other times they were depressed in function of inflationary or budgetary objectives, or to force down wages in the entire economy. The most noticeable case here is the Bokros package which engineered overall wage declines of 12.2 and 5 percent in 1995 and 1996 through profound cuts in public sector wages. Lighter versions of such state-devised public sector wage declines were used in the Czech Republic in 1997 and 2000. But public sector wages were also increased at the eve of elections in the Czech Republic in 2001 and in Hungary in 1994. In addition, the Orbán government started to raise public sector wages both because of the growing unrest in the public sector and in an (in vane) attempt to get re-elected in 2002.

As to the minimum wage, under the OF government the Czechoslovak minimum wage was initially set quite high in comparison to the average wage, 60.9 percent in 1990, declining to a still high 47.4 percent in 1992 (Table 7.8). The social democratic influence in the OF, as well as the influence of trade unions through the Central Agreements, made sure that even if the average wage was reduced substantially under the low wage-low unemployment strategy, there was indeed a meaningful wage bottom protecting working people from too deep income losses. Under the Klaus governments, the minimum wage was however hardly ever reviewed and was left to lose its real value. Wage setting was more and more left to the market, including the lower wage categories. Indeed, in 1998, the minimum wage amounted to only 22.7 percent of the average wage. It was under the Zeman government that the minimum wage was again progressively increased, to reach 36.3 percent of the average wage by 2002 (Table 7.8).

In Hungary, the initial minimum wage was much lower than in the Czech Republic, 41.6 percent of the average wage, but over the 1990s it declined much less, reaching its lowest point also in 1998, but at 28.8 percent of the average wage. It declined above all under the Antall government, while under the Horn government it remained more or less stable in comparison to the average wage. The Hungarian minimum wage then made a dramatic recovery in 2001-2002, when the Orbán government decided to raise it first by 57 percent and then by another 25 percent. In 2002, the relation between the minimum and the average wage was fairly similar in both countries, the differences being some 4.5 percentage points in favour of the Hungarian minimum wage.

By 2002, wage policy in the two countries was not too different. In the competitive sector, wages are set mainly through the market and collective bargaining, with regular non-binding recommendations issued at the national level. In the public sector the state controls wages much more and uses its power to reach political and economic objectives. At the same time, it is in the public sector that trade unions are strongest and manage to put their stamp on wage developments occasionally. Also, in both countries the minimum wage stands at a quite similar level in comparison with the average wage and has recovered its function of an effective bottom in the labour market.

Still, like in the case of employment policy, the path by which the two countries have come to this quite similar situation has been quite different. Czech real

wages fell dramatically in the early 1990s, but have been growing continuously since 1991 (with a slight exception in 1997). In Hungary, real wages fell continuously between 1990 and 1996 (with an exception in 1994), and started to grow only in 1997. As a result, as we will see in the next chapter, Czech real wages returned to their 1989 level in 1996, while in Hungary this happened only in 2002. Also, in 2003, real wages in the Czech Republic were 28.5 percent above their 1989 level, while in Hungary this was only 13.5 percent. These differences resulted from two facts. One is that in the Czech Republic wage policy focused mainly on the control of the level of real wage growth (the brief exception being the 1997 crisis); real wages were allowed to grow, but the state, often together with the social partners, tried to set limits to this growth. In Hungary, wage policy in 1990-1996 rather focused on real wage decline (with the brief exception of 1994), and only afterwards were wage allowed to increase in real terms. The other is that, as we will see in detail in the next chapter, in the Czech Republic the employment rate was much higher throughout the post-1989 period and also the coverage of collective agreements was higher. Hence, in comparison with Hungary, both collective (unions) and individual actors were in a stronger position to negotiate wages with employers. Indeed, attempts at macro-level to limit wage growth in the Czech Republic were not always successful as at micro-level the bargaining position of employees was relatively strong.

Table 7.8: Minimum wage and average wage, Czech Republic and Hungary, 1990-2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Czech Republic													
Gross monthly minimum wage (CZK)	2000	2200	2200	2200	2200	2200	2500	2500	2650	3250	4000	5000	5700
Average monthly gross wage (CZK)	3286	3792	4644	5817	6894	8172	9676	10691	11693	12666	13449	14669	15711
Minimum wage as % average wage	60.9	58.0	47.4	37.8	31.9	26.9	25.8	23.4	22.7	25.7	29.7	34.1	36.3
Hungary													
Gross monthly minimum wage (HUF)	5600	7000	8000	9000	10500	12200	14500	17000	19500	22500	25500	40000	50000
Average monthly gross wage (HUF)	13446	17934	22294	27173	33939	38900	46837	57270	67764	77187	87645	103558	122488
Minimum wage as % average wage	41.6	39.0	35.9	33.1	30.9	31.4	31.0	29.7	28.8	29.1	29.1	38.6	40.8

Source: own elaboration based on data from CSZO, MLSA and KSH

7.3 Labour legislation

The third group of regulations and policies here are those enshrined in labour legislation. For the purpose of this chapter the main subject of interest here is the way in which labour law circumscribes the individual employment relationship through the regulation of (i) employment protection and external flexibility; (ii) working time and leave regulations; and (iii) regulations concerning wage supplements. Because of the lack of availability of information on the regulations in the early 1990s as well as on the changes made during 1990-2002, I will not present an overview of how all relevant regulations have changed over this period. Rather, I will focus on the relevant regulations as they stood by the end of the period. In both cases, the basis of the new legislative system was put in place in 1990-1992 with the adoption of new basic legislation, including a new or strongly modified Labour Code, new Employment Acts and a series of other acts. Subsequently, smaller modifications were made throughout the period under discussion.

Table 7.9 summarises the main features of the three groups of regulations as they were in force in 2001. As to the first group, in both cases, market coordination is restricted as the employee receives important protection against dismissal, through formal dismissal procedures, notice periods and severance pay. Collective dismissals are further regulated in line with the respective EU directive, requiring the employer to notify the competent trade union body (or works council) and labour office in writing at least 30 days before giving notice and to discuss measures to avoid or reduce the collective redundancy and mitigate its adverse effects. Also trial periods are restricted, while restrictions on temporary contracts are quite insignificant. Differences between the two countries do exist but are marginal.

The same is true for working time and leave regulations. In the Czech Republic it is somewhat easier for employers to use flexible working time schedules, while in Hungary somewhat more overtime can be required, if agreed in collective agreements. Also as far as rest time, annual leave and maternity leave differences remain very small. Where wage supplements are concerned, they prove to be somewhat higher in Hungary, putting more restrictions on the employer and reducing market coordination. However, even here the differences are small.

Table 7.9: Regulation of the employment relationship, Czech Republic and Hungary, 2001.

	Czech Republic	Hungary
	Employment protection and external flexibility	
Fixed-term contracts	No limits in duration or sequencing; cannot be agreed with graduates of secondary and university level or apprentice schools if job corresponds to qualifications; employees specified in collective agreements; adolescents.	Maximum 5 years, including the establishment of a new employment relationship.
Trial periods	90 days, or less if so agreed.	30 days, or up to 90 days by agreement.
Notice periods	60 days, or 90 days if concerning redundancy because of shutting down of the enterprise, a change in technology, or efficiency-increasing measures.	30-90 days depending on the length of employment, extendible to maximum 1 year by individual or collective agreement.
Dismissal procedures	Employer should: consider retraining before dismissal; consult the trade union; actively assist the employee in finding new employment. Dismissal is not possible during sickness, pregnancy and maternity leave and for union officials.	Employer must justify dismissal and employee has opportunity of defence. No justification needed for pensioners. No dismissal for union officials, during sickness, pregnancy, and maternity leave, except for pensioners and executive employees.
Collective dismissals	Follow the EU directive	Follow the EU directive
Severance pay	2 months, can be increased by collective agreement.	1-6 months, depending on length employment. No severance pay for pensioners. 3 months extra in 5 year pre-pension period.
	Working time and leave	
Flexible working time schedules	In individual or collective agreement up to 12 months of flexible scheduling can be agreed if the nature of the work so requires, with maximum 12 working hours a day.	Working schedules of between 4-12 daily working hours can be agreed for 2 months by individual contract, 4 months in collective agreement, 6 months in multi-employer agreement. No limits for seasonal work.
Overtime	May only be required in extra-ordinary cases. Maximum 150 hours per year, 8 hours per week. This maximum does not include the hours for which compensatory time off is provided.	May only be required under special circumstances. Max. 8 hours in 4 consecutive days. Max. 144 hours yearly, or 200 hours if agreed by collective agreement, or 300 hours if agreed by multi-employer agreement.
Rest time	35 hours uninterrupted rest per week	2 rest days a week, including Sunday.
Annual leave	4 weeks; 5 weeks for non-business sector; 8 weeks for teachers, academics.	20-30 days depending on age; extra days for under 18, single parents, blind people, difficult working conditions.
Maternity leave	28 weeks. Parental leave up to 3 years possible.	24 weeks. Leave of absence possible for 3 years.
	Wages and supplements	
Overtime supplement	Minimum 25%	Minimum 50%
Night work supplement	CZK 5.40 per hour (July 2000)	15%. When alternating shifts, 15% for afternoon shift and 30% for night shift
Compensation for work on rest days and holidays	For public holidays: wage plus paid time off. Time off can be replaced by bonus of at least 100%. Weekend: to be agreed between employer and employees.	For work on a rest day: 50% bonus if another rest day or additional rest time is allocated. If not, 100% bonus. On an official holiday additional absentee wages.
Stand-by duty supplement	Minimum of 20% of wages when at work place, 10% when at home	25% of wage to be paid

Sources: Own elaboration based on the Hungarian Labour Code, the Czech Labour Code, and the Czech Act on Wages, Remuneration for Stand-by and Average Earnings.

Indeed, where legal regulations circumscribing the employment relationship are concerned, differences between the two cases are of limited significance and the extent to which they make the two cases deviate from an ideal-type market is similar. However, as we will see in chapter 8, since the informal sector is much more extensive in Hungary, the share of employees to which these regulations apply is lower than in the Czech Republic. This increases the role of the market in Hungary, in the sense that the individual contracting partners have more 'freedom' to determine the content of their contracts. However, the informal sector does not resemble an ideal-type market, since the state does not guarantee the enforcement of the contracts made.

7.4 Collective agreements

The final issue to be covered here is that of collective agreements. The availability of data on collective agreements is limited and differs also between the two countries. On the coverage of collective agreements, in Hungary data started to become available only since 1998, when the registration of collective agreements was made compulsory by the Ministry of Labour. On previous years there is only data on wage agreements in the competitive sphere. In the Czech Republic only data on the coverage of agreements made by CMKOS are available. For both countries the information on the content of agreements is scarce. Still, we can say a number of things on the role of collective agreements in the labour market in the two countries.

Table 7.10 shows the development of enterprise level and multi-employer wage agreements in Hungary between 1992 and 1999 in the competitive sphere. The number as well as the percentage of employees covered by enterprise agreements did not vary much during the 1990s, ranging between just under 500,000 and just under 600,000 and between 27 and 32 percent. This is not true for multi-employer agreements. Their coverage declined rapidly in the early 1990s, from 41.9 percent to 12.7 percent between 1992 and 1993. Between 1993 and 1999 it hovered between 10 and 16 percent, with and exceptionally low 5 percent in 1995, the year of the Bokros package. In addition, part of the multi-employer agreements should really be considered to be enterprise collective agreement, as they were concluded by companies belonging to the same group of owners (Nacsa and Neumann 2001). Because of the limits of the data, these figures only provide us with an indication.

However, after 1992, there seems to be a stabilisation around 40-45 percent of employees in the competitive sector (although there may be some duplication, i.e. employees that are covered by both types of agreements). The coverage of collective agreements in the competitive sector was higher, since not all collective agreements include a wage agreement.

Table 7.10: Enterprise and miulti-employer wage agreements in the competitive sphere, Hungary, 1992 and 1999

	1992	1993	1994	1995	1996	1997	1998*	1999
	Enterprise agreements							
No. of wage agreements	391	394	490	816	594	598	768	827
No. of employees affected by wage agreements ('000)	567.0	592.4	555.6	490.9	512.7	488.3	583.2	587.5
Ratio of employees affected by wage agreements (%) **	27.2	32.4	29.5	27.8	31.6	30.6	31.5	31.0
	Multi-employer agreements							
No. of wage agreements	24	12	12	7	10	11	31	16
No. of enterprises affected by wage agreements	950	692	622	143	718	207	3048	1231
No. of employees affected by wage agreements ('000)	874.0	231.1	207.6	88.0	201.0	210.0	305.0	192.5
Ratio of employees affected by wage agreements (%) **	41.9	12.7	11.0	5.0	12.4	13.2	16.5	10.2

* All multi-employer wage agreements, including agreements concluded without employer organisations.

** Competitive sector, enterprises with more than 20 employees (1992-1993), more than 10 employees (1994-1995) and more than 5 employees (since 1996).

Source: Nacsa and Neumann 2001: page 19, tables 4 and 5.

For 2000 and 2001 there are data for the labour market as a whole. In 2000, 33.4 percent of employees was covered by some sort of agreement and it was somewhat higher in the private sector (Table 7.11). Coverage fell to 31.2 percent in 2001. This fall came entirely at the expense of the private sector, where coverage decline by more than three percent, while coverage in the public sector increased slightly. And while this concerns only the changes from one year to the other, it is still illustrative for the continued weakening of trade unions in the private sector and the strengthening role of public sector unions. This is further illustrated by the fact that coverage is somewhat higher for white-collar employees than for blue collar employees. The Orbán government, potentially important in increasing coverage of collective agreements through extension, obviously chose to have a minimal role in this respect (like its predecessors by the way). Extensions were effective only in the bakery branch and in electric energy production and the number of employees

covered exclusively by extensions amounted to just over 10,000 in 2000 (1 percent) and just under 50,000 (4.8 percent) in 2001. Hence, by 2001, the coverage of collective agreements stood at 31.2 percent, achieved largely through enterprise agreements and with a minor role for sectoral agreements and extensions.

Table 7.11: Hungary: coverage collective agreements, 2000-2001

	No. employees covered by any collective agreement		Total number of employees in labour markt		Coverage (percent)	
	2000	2001	2000	2001	2000	2001
Total	1088558	1029373	3255472	3296306	33.4	31.2
Private sector	800562	745590	2313176	2376429	34.6	31.4
Public sector	287996	283783	939061	916828	30.6	30.9
White-collar	467456	437154	1333178	1345651	35.1	32.5
Blue-collar	620886	592218	1922293	1950655	32.3	30.4

Source: Neumann (2002).

As far as the Czech Republic is concerned, the number of company collective agreements and higher-level collective agreements declined continuously after 1990. As a result, whereas together they covered some 2.8 million employees in 1995, by 2002, this number was almost half (data for the years before 1995 is not available in the same detail) (Table 7.12). This decline is a clear sign of the declining membership and power of trade unions and of structural change in the economy. As mentioned earlier, like their Hungarian counterparts, Czech trade unions have had a hard time organising SMEs, FDI companies as well as the service sector.

Contrary to Hungary, though, starting in 1999, the Zeman government did step in to improve the coverage of collective agreements through extensions. Extensions had already had some importance under the OF government, and concerned 119 employers in 1991 and 650 employers in 1992 (Hála et al. 2002: 53, table 5). Since then, however, under the Klaus government and in line with its individualist view, extensions were rapidly downscaled to cover 280 employers in 1993, 56 employers in 1994, 12 employers in 1995 and 0 employers in 1996-1998 (*ibid.*). With the move towards social-democracy, extensions were put on the agenda again. As a result, in 1999-2002, the number of employers covered by extension hovered between 399 and 3500 (Table 7.12). The number of employees covered by such extensions was indeed significant, reaching up to 288,000 in 2001.

Table 7.12: Collective agreements and extensions, Czech Republic, 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002
Company collective agreements (CCAs)								
No.	8888	6299	5332	4971	4698	4339	4205	4314
Employees covered	2044667	1884296	1709773	1412017	1418544	1379333	1038772	1075987
Higher-level collective agreements (HLCAs)								
No.	33	30	30	25	22	22	20	20
Employees covered (excl. extensions)	770550	730080	648079	521651	584067	469249	446997	459848
Extensions of HLCAs								
Employers covered	15	0	0	0	399	2074	3482	2881
Employees covered	-	-	-	-	-	174272	288314	269299
Employees covered by HLCAs after extension	-	-	-	-	-	643521	735311	729147

Note: the data only refer to agreements concluded by CMKOS trade unions, missing an estimated 900 agreements concluded by other unions.
Sources: own elaboration based on Hála et. al (2003, Tables 2 and 3); : Hála et. al (2002, Table 5); Večerník (2001: 44, table 3.2); Cornejová and Fassmann (2003).

If we then evaluate the coverage of collective agreements by the end of the period here under analysis, in 2001, in the Czech Republic, almost 1.8 million employees were covered by any type of collective agreement or extension thereof, compared to just over 1 million employees in Hungary (table 7.13). This translate into a coverage rate of 44.7 percent in the Czech Republic and of 31.2 percent in Hungary. The difference in coverage rate is partially due to the extension of agreements: without such extensions the coverage rate in the Czech Republic would decline to 37.4 percent. The remaining difference is the outcome of a combination of two factors: a stronger union movement and a greater importance of 'traditional' industrial sectors in the Czech Republic (the percentage of employed active in industry in the Czech Republic is about 6 percentage points higher than in Hungary, see chapter 8).

What about the content of collective agreements in the two countries? Because of their higher importance in setting actual working conditions as well as a better availability of information, I will focus here on company-level agreements. In the Czech Republic, in 2001, 62.6 percent of company collective agreements included stipulations concerning wages (based on Hála et al. 2002: 65, unnumbered table). This means that more than one-third of collective agreements do not include such stipulations and hence do not play a role in wage setting. This also means that the

number of employees for whom wages are set by collective agreements is much lower than the 1.8 million that fall under any type of agreement.

Table 7.13: coverage of collective agreements, Czech Republic and Hungary, 2001 (%).

	CZ	HU
No. employees covered by any type of collective agreement	1774083	1029373
Total No. employees	3969800	3296306
Coverage rate (%)	44.7	31.2

Notes: CZ includes only agreements concluded by CMKOS. Also, in CZ the number of employees covered may include some double counting of employees covered by both a CCA and a HLCA. Both these factors can have some (albeit opposite) effect on the CZ coverage rate.
Sources: see CZ an HU tables.

The actual content of wage stipulations (e.g. if they contain stipulations providing real wage increases or not) varies over time, depending on the national wage picture and economic conditions. For example, in the crisis year 1997, only 12.0 percent of agreements included provisions concerning the maintenance or rise of real wages, compared to 19.6 percent in 1999 (Večerník 2001: 44, Table 3.2). Working time is a more recurrent theme in collective agreements in the Czech Republic. According to data presented by Večerník (2001), more than 90 percent of collective agreements include provisions that set working time below the standards of the Labour Code, while just over 80 percent of agreements provide for longer holidays. Unfortunately, on other issues information on the content of Czech collective agreements is hardly available.

In Hungary, the situation concerning the coverage of wage agreements was similar to that in the Czech Republic in the late 1990s and early 2000s. According to Nacsa and Neumann (2001: 21), 63 percent of collective agreements in the competitive sector and 25 percent of those in the budgetary sector included wage agreements, mostly dealing with additional wage elements, wage tariffs tables, and the increase of the basic salary. As in the Czech Republic, this implies that the coverage of wage agreements is much lower than that of collective agreements.

Table 7.14 presents information on working time, external flexibility and payment for flexibility as they are included in Hungarian collective agreements. The table is based on a sample from the Hungarian Collective Agreements Archive.[146] Although the sample is small and only indicative, it does provide important information. First of all, some items are more often regulated in collective agreements than others. For example, issue like flexitime arrangements, the

accumulation of rest days, supplements for work outside regular duties, or wage supplements for night work are mentioned in less than half of the agreements. As a consequence, in principle here the provisions of the Labour Code apply. However, concerning a number of issues, collective agreements simply repeat the Labour Code provisions. This applies especially to daily working time, wage supplements for overtime, and wage supplements for work on rest days. This means again that the Labour Code prevails in these cases and that the collective agreement does not regulate working conditions. It does not mean that this repetition is meaningless: it does help to assure that the Labour Code is actually respected.

The last-but-one column provides the percentage of collective agreements in which the respective items are regulated differently from the Labour Code. Here we can appreciate the regulatory role of collective agreements, which is important on most items. However, considering the fact that the Hungarian Labour Code in certain cases allows for deviations from its provisions by collective agreement to the detriment of employees, this does not mean that these are necessarily better protected.

To better understand this issue, table 7.15 gives information on the way the provisions in collective agreements deviate from the Labour Code. It shows that on working time issues, trial periods and extraordinary dismissals a high share of collective agreements deviates from the standards set by the labour code to the detriment of the employees. On others issues like severance payments and wage supplements they set standards above those of the labour code, favourable for workers. The key point here is that collective agreements do not only improve working conditions for employees but also worsen them in a substantial number of cases. This is not possible in the Czech Republic where collective agreements can only set standards above those of the Labour Code: where in the Czech Republic collective agreements are always favourable for employees and always reduce market governance, in Hungary they can increase the scope for market regulation as in some cases they can set less favourable working conditions for individuals than the Labour Code. Hence, collective agreements do not only cover more individuals in the Czech Republic, they are also more market-restricting and employee protecting than in Hungary.

[146] This sample was taken and analysed in cooperation with László Neumann.

Table 7.14: subjects included in collective agreements and their relation to the Labour Code, 1999-2001 samples, Hungary (%).				
Working time	Not mentioned	Repeats Labour Code	Differs from LC	Total
Daily working time other than 8 hours (LC: 8 hours)	1.3	73.7	25	100
Maximum limit for the annual hours of overtime (LC:144/200)	10.5	22.4	67.1	100
Time frame for flexible working hours (LC: max. 2 months)	9.2	35.5	55.2	100
Flexitime arrangement (LC:–)	53.9	0.0	46	100
Split working hours: (LC:–)	78.9	0.0	21.1	100
Minimum rest time between shifts (LC:14 hours)	24.2	3.0	72.7	100
Accumulation of rest days (LC: two weeks)	60.6	0.0	39.4	100
Definition of night work (LC:24-05)	57.6	0.0	42.4	100
Yearly days of standby service (LC:–)	78.8	3.0	18.2	100
Yearly days of re-allocation, posting and transfer together (LC:110)	54.5	30.3	15.2	100
External flexibility				
Trial (probation) periods (LC: 30 days)	13.2	1.3	85.5	100
Notice periods	17.1	36.8	46.1	100
Severance pay arrangements (LC: depending on years of service)	19.7	32.9	47.4	100
Reasons for extraordinary notice /firing/ (LC: general text)	10.5	6.6	82.9	100
Discouraging dismissal and favouring relocation (binding stipulations only)	71.1	10.6	18.4	100
Payment for flexibility				
Supplement for work outside regular duties (*LC: changed!*)	60.5	10.5	28.9	100
Wage supplements for overtime work (LC: rest or 50 %)	17.1	56.6	26.4	100
Wage supplements for work on rest days *(LC: 100 % or 50 % plus rest)*	18.4	63.2	18.4	100
Wage supplements for night-work *(LC: 15 %)*	52.0	10.7	37.3	100
Wage suppl. For night/aftern. shift *(LC: 15/30 % plus 5/10 % for cont. operation)*	13.2	22.4	64.5	100
Wage supplements for standby service *(LC: 25 % outside, higher at workplace)*	30.3	17.1	52.6	100
Wage for idle period ("Wage for leaves")	52.6	17.1	30.2	100
Average	**36.6**	**20.6**	**42.8**	
Notes; *(i) Italics* concern 2001 only. (ii) Between brackets: provisions of labour code. (iii) Sample size: 43 (1999) + 33 (2001) = 76. (iv)				
Source: Own calculations based on sample taken from Collective Agreements Archive				

Table 7.15: types of deviations from Labour Code in collective agreements, 1999-2001 samples, Hungary.

Regulation	% CA's with deviation from LC	Main characteristics of deviations		
		1	2	3
Full working time other than 8 hours (LC: 8 hours)	25	Flexible working time (4-12 hours) for all or for certain groups: 44%	Working time over 8 hours for all or certain groups: 39%	Working time under 8 hours for certain groups: 17%
Maximum limit for the annual hours of overtime (LC:144/200/300)	67.1	300 hours: 58% (should concern multi-employer contracts	200 hours: 42%	
Time frame for flexible working hours (LC: max. 2 months)	55.3	Provide for time frames of between 3 and 12 months		
Flexitime arrangement (LC:–)	46.1	Generally only white collar workers		
Trial (probation) periods (LC: 30 days)	85.5	1-3 months		
Notice periods (LC: 30-90 days depending on length employment	46.1	83.9% concerns prolongation notice period	16.1% concerns shorter periods y	
Severance pay (LC: 1-6 months of average earnings, depending on years of service)	47.4	All give extra entitlements to some age groups with high seniority, varying between 7 and 19 months	47.2% also gives extra entitlements for those with low seniority	
Reasons for extraordinary notice /firing/ (LC: general text)	82.9	Add extra reasons for extra-ordinary dismissal. Average: 7.7 reasons.		
Wage supplements for overtime work (LC: rest or 50 %)	26.6	35 % increase the overall level of compensation	65% increase compensation following specific criteria or for specific groups	
Wage supplements for night-work *(LC: 15 %)*	37.3	Increase compensation level, average 37.4%.		
Wage supplements for night/aftern. shift *(LC: 15/30 % plus 5/10 % for continuous operation)*	64.5	Increase compensation levels, average afternoon shift: 24.0%; night shift: 48.8%		
Wage supplements for standby service *(LC: 25 % outside, or higher at the workplace)*	52.6	Increase compensation levels, average at home: 27.5%; average at workplace: 51.5%		
Wage for idle period ("Wage for leaves")	30.3	55% states 100% of the basic wage as compensation	45% states between 25% and 85% of the basic wage	
Minimum rest time between shifts (LC:14 hours)	72.7	All set shorter minimum rest time, almost all between 8 and 11 hours		
Definition of night work (LC:24-05)	42.4	All define 10pm-6am as night work		

Source: based on a sample from the centralized registration of collective agreements

7.5 Conclusions

From the above we can conclude that in all areas discussed, labour market institutions to some extent restrict the market and make that the cases deviate from the ideal-type market. Two questions are of interest here, i.e. the differences between the two cases and change over time.

Possibly the main difference, with the most decisive impact, was that concerning employment policy. Employment policy was much more market-dominated in Hungary whereas in the Czech Republic the state also continuously played an important role in this respect. This has made the Czech trajectory more employment-friendly and as a result more social trajectory, providing the population with more jobs and income generating opportunities. By 2002, however, the situation had changed in both countries and differences had become much smaller.

Where labour market policies are concerned, both cases followed a similar trajectory, starting with a universalistic regime, especially where unemployment benefits were concerned, which were then downscaled progressively, bringing the two cases closer to the market. In 2002 the two cases resembled a liberal-minimal regime, also because active labour market policies were of limited importance. Hence, in both cases, labour market policies less and less restricted the market.

In the wage policy area, governments in both cases have in many instances through central intervention aimed to influence wage setting, generally to limit wage growth below the wages the market would have produced, but sometimes also to increase wages above market rates. To this effect they used central wage regulations, their power over public sector wages as well as the minimum wage. In both cases the governments tried to limit wage growth most in the first half of the period under study, however in Hungary it was much more focused on real wage decline and in the Czech Republic, after 1991, more on the control of the rate of real wage growth. In the second half in both cases the governments made attempts to foster accelerated wage growth. Hence, here we can conclude that in the Hungarian case in the first half of the 1990s the market was more restricted by central policies. Still, at the end of the period, the two cases look quite similar. Interestingly enough, where wage policy is concerned, the restriction of the market has often had negative effects for employees, as it results in lower wages than the market would produce.

Where labour legislation is concerned we can conclude that by the end of the period there were only few differences between the two cases. A detailed picture of developments over time is lacking, but based on the analysis in chapters 5 and 6 we can say that in both cases there has been a tendency to increase the possibilities for working time flexibility as well as for a-typical contracts. Also, a number of innovations were made to reflect EU Directives. Again these are quite similar in both cases. However, as mentioned, because of the bigger size of the informal sector in Hungary a more sizeable share of the employed do not enjoy the protection provided by labour legislation and are more subject to the market.

Where collective bargaining is concerned, major differences do exist and persist. Collective agreements cover more individuals in the Czech Republic, and are also more market-restricting and employee protecting than in Hungary.

If we then consider how the cases deviate most from the ideal-type market we have to conclude that (i) there is no wholesale choice in either of the cases for more or less market coordination and in each case there are major differences between the four institutional areas analysed; (ii) within the four areas important change has taken place over time but these do not follow one unique direction. Hence, a simple, one-dimensional characterisation of the cases would not do justice to their complexity. However, throughout the post-1989 period as well as in the end of the period of analysis, Hungary has been closer to the ideal-type than the Czech Republic.

Adding to the differences between the two cases is that these labour market institutions govern different labour markets. It could be argued that this in some cases affects the meaning and significance of some of these institutions. The example of the different meaning of unemployment benefits in a tight or in a depressed labour market was already mentioned in earlier chapters but this counts as well, for example, for dismissal protection. Let's now turn to the analysis of the outcomes on the labour market.

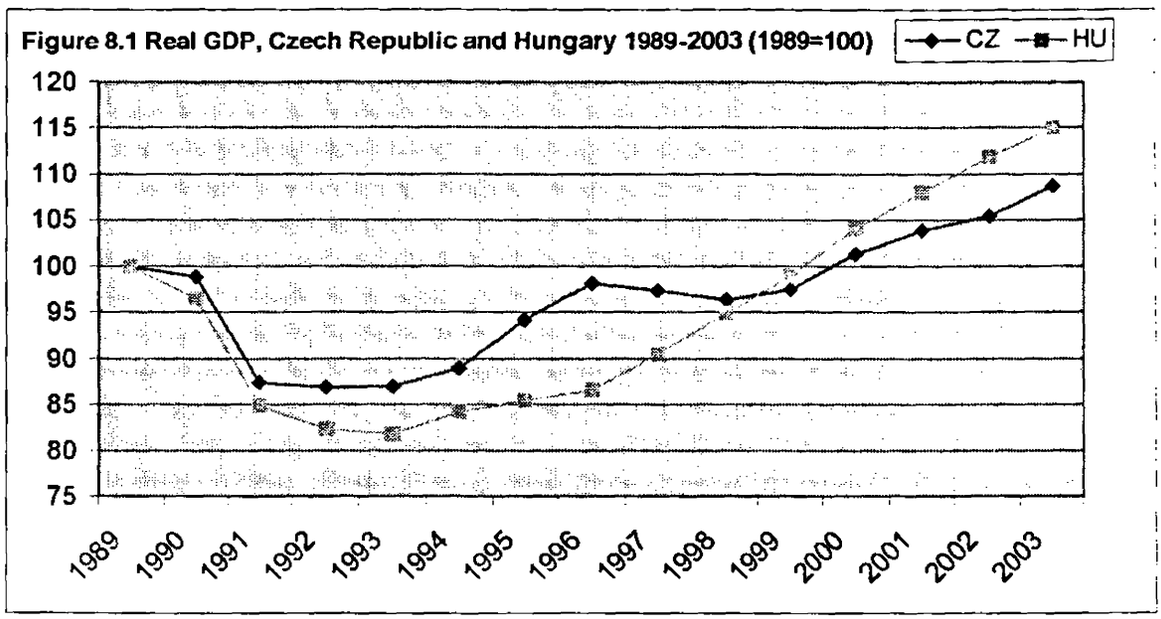
Chapter 8: Labour market structures

In this chapter I will discuss the last box of the model proposed in chapter 1, concerning labour market structures. I will not provide a very detailed labour market analysis but will only present developments on the main indicators that are related to the analysis in the previous chapters. The goal here is not so much to get a comprehensive view of the ins and outs of the newly emerged labour markets in the two countries. This chapter is rather meant to complement the analysis in the previous chapters in three important respects. One is to further clarify the role of institutions, since the actual role and meaning of labour market institutions and the way they inform agency will differ according to the particular labour market situation to which they apply. For example, as mentioned earlier, the access to and level of unemployment benefits will structure action differently when unemployment is high or when it is low, or the role of dismissal protection varies between high employment and high unemployment situations. Secondly, as indicated abundantly in the previous chapters, developments in labour market structures are important indicators for the outcomes of the process of transformation. In this way they have informed governments, employers, unions, international organizations and others on the results of their actions and innovations, allowing them to adjust policy initiatives accordingly. Thirdly, the comparison of development in labour market structures allows us to evaluate the differentiated impact of the two distinct paths of post-socialist transformation on the relationship between developments in GDP, employment and wages. Indeed, the key points the present chapter will make are (i) that the more employment friendly and more social path of the Czech Republic has produced higher wages and higher employment than the more market-oriented path in Hungary; and (ii) that the more market-oriented path in Hungary has produced a more flexible and precarious labour market than the Czech path.

8.1 Growth, inflation, wages and employment

The context for the developments on the labour market is formed by economic growth and inflation. This on the one hand because of their supposed direct effect on employment and wages. On the other, creating economic growth and lowering inflation have been two of the major goals throughout the period of analysis. The

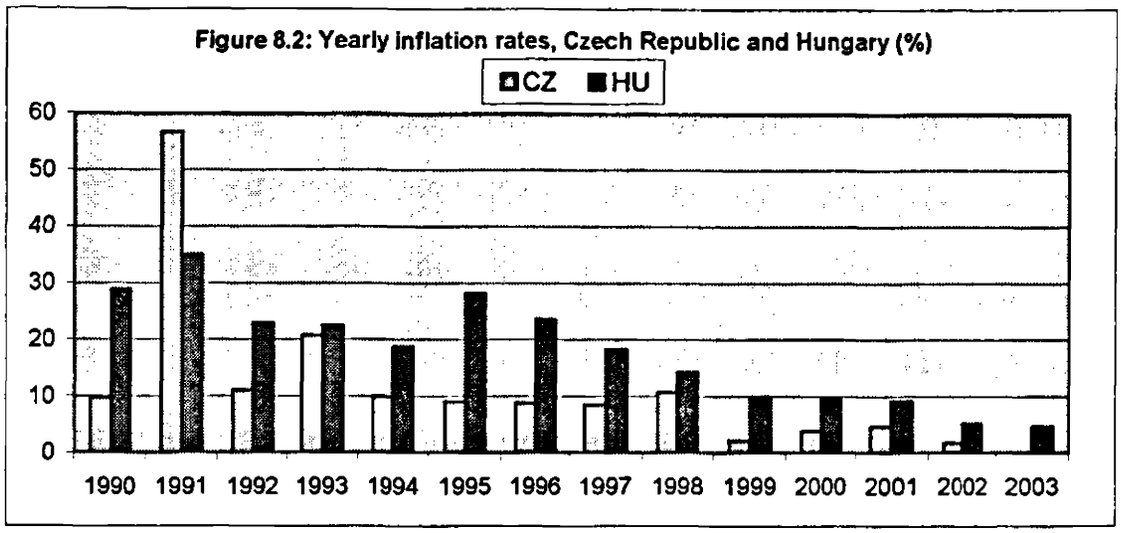
turbulent early 1990s were characterised by the emergence of a major economic crisis exemplified by the 18.2 per cent decline of GDP in the period 1989-1993 in Hungary and a 13.0 per cent GDP decline in the Czech Republic in the same period (Figure 8.1). Indeed, this initial decline was deeper in Hungary than in the Czech Republic, following the tougher market conditions in the former and the resulting wave of downsizing and bankruptcies.



Source: EUROSTAT

Also, the Czech Republic seemed to recover much easier from the initial crisis, considering the strong growth in 1995-1996. This was when there was still a belief in the 'easy Czech way to capitalism', propagated by Klaus. However, in 1996-1997 the Czech economy went into a renewed crisis when soft budget constraint became harder and investment funds started to falter. This led to the fall of Klaus and the turn towards social democracy in 1998. From 1999 onwards the economy grew again constantly, and in 2000 it finally exceeded its 1989 level. In Hungary, since 1994 the economy has been growing, modestly in the years 1994-1996 and more abundantly afterwards. Whereas in 1996, before the second Czech crisis, the difference between the two countries compared to 1989 was hugely in favour of the Czech Republic, since 1999 Hungary has been doing better and the gap between the two was some six percentage points by 2003. Still, because of the historical gap between the two countries going all the way back to the different positions the two areas had in the

Habsburg Empire, in 2003, adjusted for purchasing power, GDP per capita in the Czech Republic was 13.1 percent higher than in Hungary.

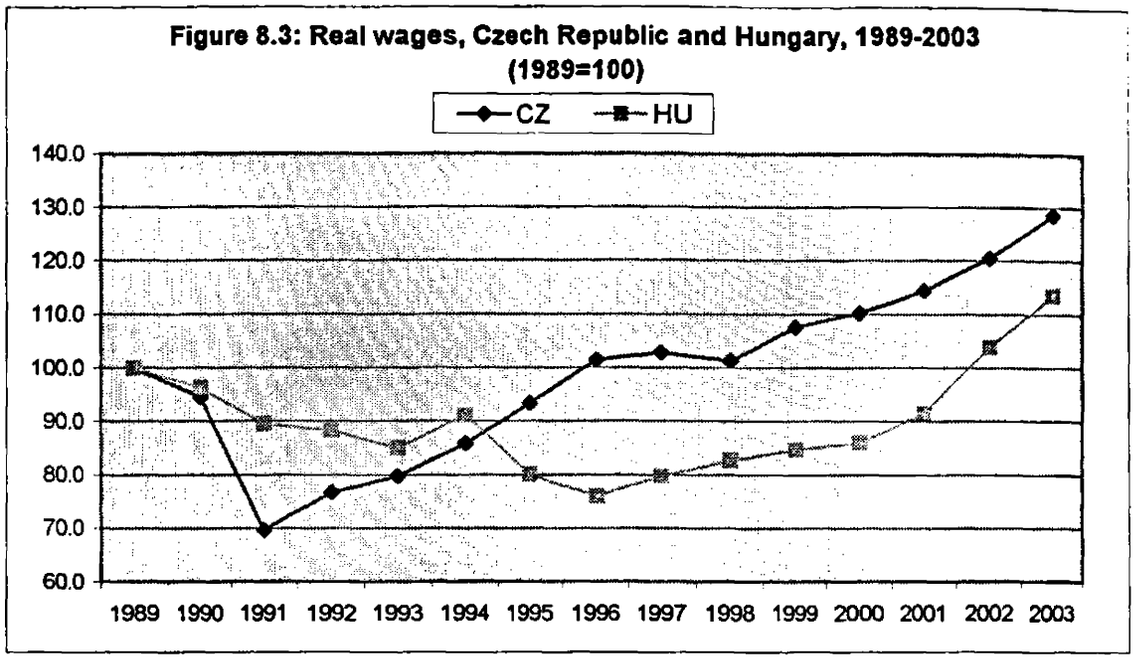


Source: EUROSTAT

As far as inflation is concerned, the Czech Republic (or Czechoslovakia) has outperformed Hungary over the entire post-socialist period (Figure 8.2). The only exception was the year 1991, when much of prices and trade were liberalised in Czechoslovakia while much of this had already been done in Hungary in the late 1980s. In that year, Czechoslovak inflation amounted to no less than 56.6 percent, compared to 35.0 percent in Hungary. In the Czech Republic, inflation seriously exceeded the 10 percent only in two years, while in Hungary this was the case continuously in the 1990-1998 period. Over the entire 1990-2003 period average yearly inflation in the Czech Republic amounted to 11.2 percent, compared to 18.0 percent in Hungary. Hence, whereas low inflation was a major objective in both cases over the entire post-1989 period, the Czech Republic was much more successful in achieving this than Hungary. In the latter country, not even the Bokros package of 1995 managed to get inflation under control in the short term and only by 1999 did inflation decline to 10 percent.

The matter of inflation is of great importance here especially for the development of real wages. In the Czech Republic, the high inflation in 1991, combined with strict central wage control, caused real wages to fall dramatically to about 70 percent of their 1989 level (Figure 8.3). Since then, however, with the exception of the 'small crisis' of 1997-1998, real wages increased continuously and

rapidly right up until today. By 1996, wages had recovered to their 1989 level and by 2003 they were 28.5 percent above the 1989 level.



Source : WiiW database

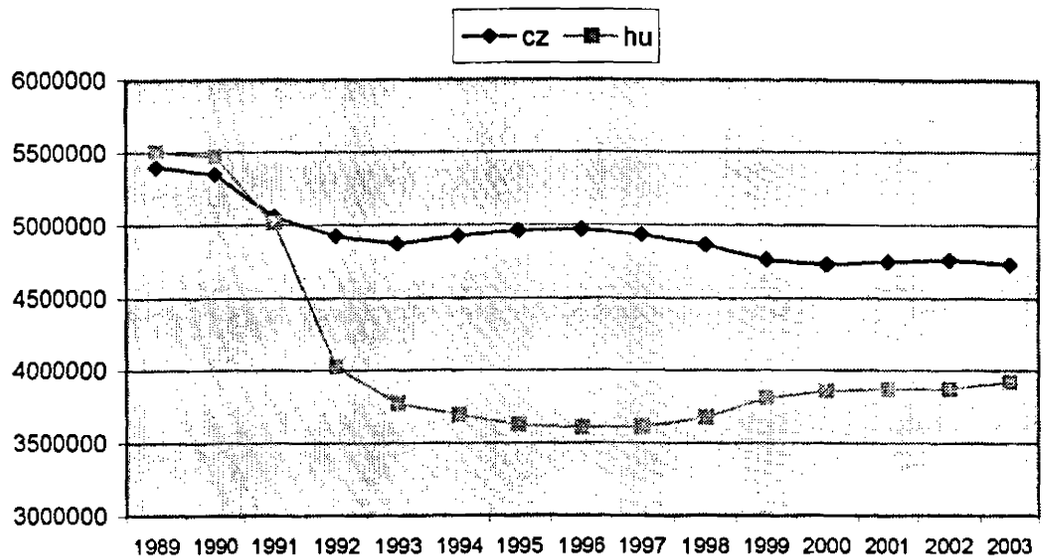
Wage developments reflect the approach by the successive Czech governments. In 1990-1991, the OF government chose to end price control and to engineer a strong real wage decline as a one-off drastic adjustment to the new circumstances and as a key element of its low wage-low unemployment strategy. Because of its political clout and its extensive popular support it could also make this move without dramatic social protest. This also because trade unions were part of the decision making process and accepted the need for initial wage decline, also to preserve employment. Since then, the various governments have followed a policy of controlled real wage growth. This included the Klaus governments, in spite of Klaus's emphasis on balanced budgets and low inflation. Indeed, low inflation was achieved in combination with rapid wage growth. Apart from government policy, also the high employment rate, relatively strong position of trade unions and the wider coverage of collective agreements contributed to this continuous rise of real wages. What is more, as we will see below, if we take the aggregate developments in real wages, GDP and employment over the 1989-2003 period, Czech real wages increased somewhat more than labour productivity.

The Hungarian case has been quite different. Because of the Antall government's 'fear of society' it initially sought more modest wage decline than its Czechoslovak counterpart. Also, wages were temporarily increased in the run up to the 1994 elections. Then the Horn government, through the Bokros package, engineered two years of steep wage decline, aiming to decrease the budget deficit and inflation. Trade unions unsuccessfully attempted to prevent this from happening. Since 1996, real wages have been on the increase, first slowly because of the continued priority given to wage moderation as a means to lower inflation, and later very rapidly, following Orbán's turn in wage policy resulting in rapidly rising minimum and public sector wages. Wages in Hungary only reached their 1989 level in 2002, six years later than in the Czech Republic, and in 2003 they were 13.5 percent above the 1989 level, trailing Czech wages by 15 percentage points in this respect. Also, as will be discussed below, contrary to the Czech case, Hungarian wages lag far behind developments in labour productivity.

Hence, differences in wage developments between the two countries can to an important extent be explained by different government policies and different power constellations. An interesting side issue here is that although in the Hungarian case wage decline or moderate wage growth was often presented as necessary out of inflationary pressures, inflation has consistently been higher than in the Czech Republic. It seems that assumptions concerning the (potential) inflationary effect of wages have indeed been much exaggerated, especially in the 1990s (see also Vaughan-Whitehead 1998).

Aggregate employment has developed in an even more divergent manner than wages. In 1989, the number of people employed was almost equal in the two countries, 5.5 million in Hungary compared to 5.4 million in the Czech part of Czechoslovakia (Figure 8.4). However, by 1996, in Hungary almost 2 million jobs were lost, following the tough market-oriented reforms. As discussed in earlier chapters, these led to a wave of bankruptcies and downsizing projects, which were not compensated for by any measure by new employment creation in FDI firms or SMEs. Between 1996 and 2003 employment slowly recovered in Hungary, following accelerated economic growth, but by 2003 employment was still over 1.5 million below its 1989 level.

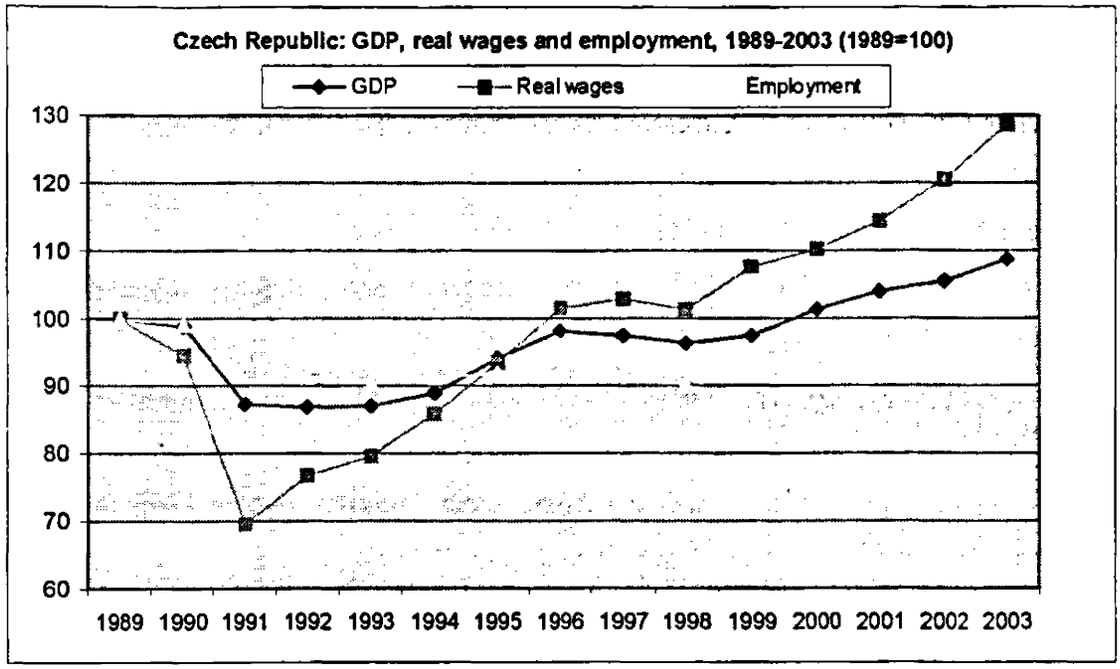
Figure 8.4: Total employment, Czech Republic and Hungary, 1989-2003

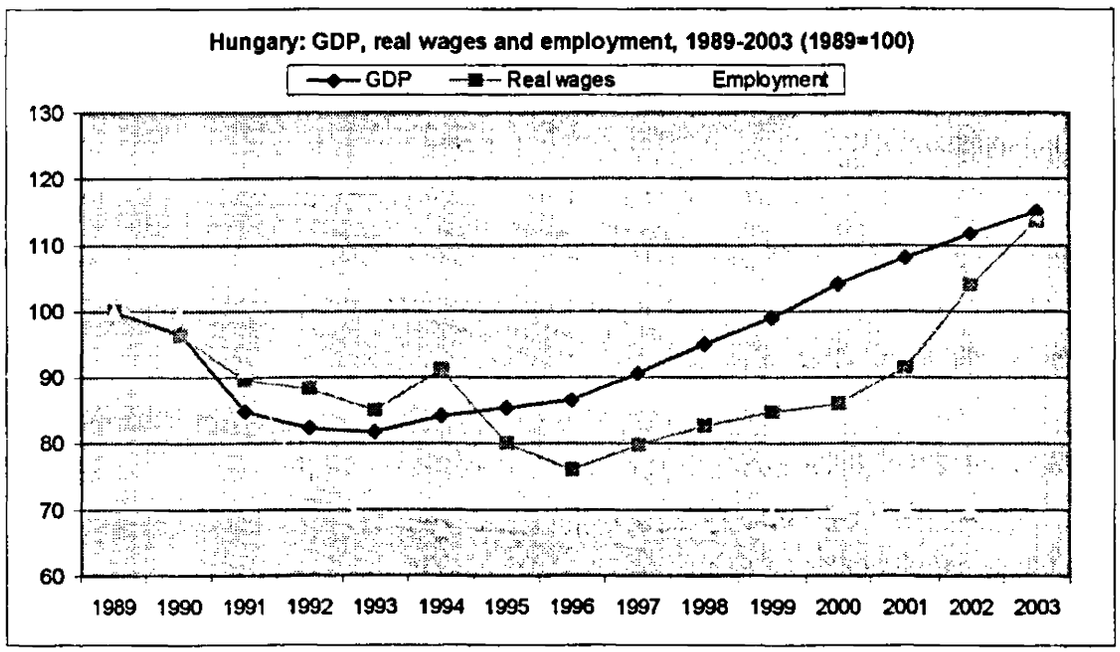


Source: CSO and KSH

In the Czech Republic the initial employment decline was much more contained, following the low wage-low unemployment strategy, the continuation of certain soft budget constraints, the limited regulation of the market and the non-enforcement of bankruptcy regulations. Hence, in 1996, Czech employment was almost 1.5 million higher than Hungarian employment. Since then the two have come closer to each other. Whereas since 1996 employment in Hungary started to grow slowly, in the Czech Republic it declined in the aftermath of the 1997 crisis, to basically stabilise since 2000. As a result, in 2003 employment in the Czech Republic exceeded that in Hungary by 800,000.

The combined developments of GDP, wages and employment are shown in Figures 8.5 (Czech Republic) and 8.6 (Hungary). The differences between the two figures illustrate the different paths of transformation. The Czech path is one of more economic stability, i.e. a more moderate GDP decline and a more moderate recovery. It is also the path of modest employment losses. Finally, it is the path of two years of rapid but very temporary wage decline, followed by 12 years of almost continuous and substantial real wage growth.





Hungary followed a path of less economic stability, with a deeper GDP decline but also a stronger recovery afterwards. It is also the path of a more gradual wage decline and then a more gradual wage growth, accelerating only by the end of the period. Finally, it is the path of deep employment decline with a minimal recovery after the lowest point was reached.

There are two main aspects of interest here concerning these different paths. One is the different relation between GDP, wages and employment in the two cases. When considering the entire period, in the Czech Republic, real wages increased some 20 percentage points more than GDP, while employment remained some 20 percentage points below GDP. Hence, labour productivity per employed increased compared to 1989 (by 24.2 percent), but the compensation of labour increased even more (by 28.5 percent). In Hungary, GDP and wages were at the same level in 2003, while employment remained no less than 45 percentage below these two. Hence, labour productivity per employed increased much more than in the Czech Republic (61.7 percent) while compensation increased much less (by 13.5 percent). Indeed, this gives the two paths very distinct characters. The Czech path is the more social, employee-friendly path where there is more employment *and* wages are higher. The Hungarian path is the more market-oriented, employee-unfriendly path where employment is much lower *and* is also rewarded less.

The second aspect is that, as argued throughout this study, these two distinct paths are socially constructed. They clearly do not simply correspond to some abstract economic logic but are largely the outcome of the different ways in which history, actors and institutions have interacted in the two cases. Indeed, the different labour market outcomes in the two cases mirror the different trajectories of institutional change analysed in the previous chapters. Of course, the stronger increasing labour productivity in Hungary may indicate it has strengthened its competitive position vis-à-vis the Czech Republic, which in the longer run might also have more positive effects on wages and employment. The argument here, however, is that, because of other than strictly economic factors, this is not the case for the moment and it does *not necessarily* have to be the case for the future either.

8.2 Flexibility and precariousness

As discussed in previous chapters, since the mid-1990s, labour market flexibility has moved towards the centre of the labour market discussion in both countries. Flexibility is often posed as an objective, in particular flexibility through non-standard contracts and through flexible working time arrangements. At the same time, critics question the drive for flexibility, arguing, among others, that it leads to

precariousness. Here I will briefly compare the two cases on a number of flexibility and precariousness-related indicators.

One important issue here is the informal sector, which in labour market terms would be the perfect example of an unregulated market. Comparative studies agree that the informal sector is much larger in Hungary than in the Czech Republic. Rosser et al. (2000) estimate the size of the informal sector for 1993-94 as 17.2 per cent for the Czech Republic and 28.1 per cent for Hungary. Schneider (2002) estimates its size for the Czech Republic to be 18.4 per cent and for Hungary 24.4 per cent in 2000-2001, and claims that of the population aged 16-65, respectively 12.6 per cent and 20.9 per cent were active in the informal sector. A larger informal sector obviously means a more flexible but also a more precarious labour market. Protective regulations have only a limited effect in this segment of the labour market, trade union representation is largely absent, and it can also be assumed that many (though not all) of the employed in the informal sector will have low or irregular incomes (Rossner et al. 2000). Hence, in this respect, the Hungarian labour market is both more flexible and more precarious.

A second issue are the types of employment that prevail in the two labour markets. Table 8.1 gives and overview of the distribution of the various types of employment prevailing in the Czech and Hungarian labour markets in 2001. In both countries the vast majority, just over two-thirds, of the employed have so-called standard employment, a permanent, contract-based and full-time job, with Hungary slightly exceeding the Czech Republic. Non-standard or flexible forms of employment thus concern 32.9 per cent of jobs in the Czech Republic and 31.7 per cent in Hungary.[147]

An examination of the composition of non-standard or flexible employment evidences that it concerns almost exclusively self-employment, fixed-term employment, and employment without a contract, together responsible for 80.9 per cent of non-standard employment in the Czech Republic and for 82 per cent in Hungary. Part-time employment, casual jobs, on call workers, and temporary agency work play only a small part in both labour markets, and together make up 6.4 per cent of total employment in the Czech Republic and 5.8 per cent in Hungary. Also, there are important differences in the composition of non-standard employment. The most

[147] Part-time employment is defined as contract-based dependent employment of less than 30 hours weekly. Full-time employment is contract-based dependent employment of 30 weekly hours and more.

striking difference, conforming the above claims concerning the informal sector, is that in Hungary no less than 9.9 per cent of employment lacks a contractual basis, while in the Czech Republic this is much lower, 5.4 per cent. This means that in both countries a significant part of employment falls outside the legally regulated sphere and lacks any formal protection and security, but in Hungary this segment is almost twice as large as in the Czech Republic. This also confirms that the informal sector in Hungary is much more extensive than in the Czech Republic.

Table 8.1: Types of employment, Czech Republic and Hungary, 2001 (%)

	CZ	HU
Permanent full-time employees	67.1	68.3
Fixed-term full-time employees	9.2	6.3
Part-time employees	2.8	4.2
Self-employed	12.0	9.8
Other types of contracts*	3.6	1.6
No contract**	5.4	9.9
Total	100	100

*casual jobs, on call workers, temporary work agency

** excludes self-employed

Source: HWF survey

Elsewhere I analysed the survey these data were taken from in more detail (Keune 2003). This analysis showed that the implications of non-standard contracts go beyond the fact that they provide less security to the person employed, something derived directly from their contractual characteristics. They also come with worse conditions in terms of income. In both countries, those having standard employment are much less likely to fall in the lowest personal income groups. In the Czech Republic, this counts as well for self-employment. In Hungary, this is not the case. Here self-employment tends much more to be a low-income activity, as the share of Hungarian self-employed falling into the lowest income quintile is more than twice the average and their share in the highest income quintiles is well below the average. This suggests that in the Czech Republic, with its more limited employment decline over the 1990s, self-employment is more a result of pull factors, that is, of positive income opportunities, while it in Hungary it is more the result of push factors, that is, it is more an alternative for unemployment and poverty (Keune 2003).

In Hungary, the same is true for all other types of non-standard types. Hence, there is a clear divide between standard employment as a relatively high income type of employment and the various types of non-standard employment as relatively low

income types of employment. This is particularly the case where employment without a contract is concerned. Not only much self-employment, but much of all non-standard employment has the function of an alternative to unemployment and poverty, a situation closely linked to the sharp decline in aggregate employment in the 1990s.

In the Czech Republic, the situation is less clear cut. As mentioned above, self-employment is also a high income type of employment. In addition, as far as employment without a contract is concerned, like in Hungary this group has a very high share in the lowest income group, but in the Czech Republic an important portion of employment without a contract is indeed relatively well rewarded. Hence, in terms of income, in the Czech Republic the divide between standard and non-standard is much less pronounced than in Hungary, making flexible employment much more precarious in the latter than in the former.

A final issue here is working time. On average the weekly hours worked in Hungary are some 3.7 hours higher than in the Czech Republic (Keune 2003). This difference stems from the fact that in Hungary no less than 21.3 per cent of the employed work more than 50 hours a week, compared to 12.8 per cent in the Czech Republic. Specified by types of employment, there are two particularly striking features of the weekly hours worked. First of all, in both countries self-employment stands out as the type of employment with the highest weekly working hours and of which the highest percentage works over 50 hours weekly. While this is not surprising, it does underline the fact that self-employment is highly time intensive and that it has precarious working conditions in this sense. Secondly, and most significantly, concerning the large group in standard employment, in Hungary, this group on average works 4.9 hours more per week than in the Czech Republic (Keune 2003). Also, in the former country, no less than 20.6 per cent of this group works more than 50 hours a week, almost three times the percentage in the Czech Republic, a difference possibly linked to overtime regulations, which, if regulated through collective agreements, allow for much more yearly overtime in Hungary than in the Czech Republic. Or: standard employment in Hungary requires greater effort.

In addition, while in both countries the majority of the employed have regular working time arrangements, in the Czech Republic the share of this group in total employment is 5.5 percentage points higher than in Hungary (Table 8.2). Also the share of shift work is higher in the Czech Republic, almost double that of Hungary, reflecting the stronger role of industry in employment. The main difference between

the two is the share of irregular patterns of working time, making up 37.7 per cent of Hungarian employment compared to 25.3 per cent in the Czech Republic. As far as the four main types of employment are concerned, the main difference occurs between standard and fixed-term employment on the one hand and self-employment and employment without a contract on the other. Standard employment and fixed-term employment have predominantly regular working time patterns, between 60-65 per cent, while self-employment and work without a contract have predominantly irregular working time patterns, over 60 per cent in both countries. However, also an important share of standard employment shows irregular working time patterns, and this share is no less than 10 percentage points higher in Hungary than in the Czech Republic. Or: standard employment in Hungary not only has higher average weekly working hours as discussed above, it is also more irregular.

Table 8.2: major types of employment and working time arrangements Czech Republic and Hungary, 2001 (%).

	Regular		Shift work		Irregular	
	CZ	HU	CZ	HU	CZ	HU
Permanent full-time employees	65.1	62.3	17.9	10.2	17.1	27.5
Fixed-term full-time employees	60.4	65.1	28.6	9.3	11.0	25.6
Self-employed	39.0	22.1	0.8	0.0	60.2	77.9
No contract*	35.3	24.6	2.0	7.2	62.7	68.1
Total	59.4	53.9	15.3	8.4	25.3	37.7

* excludes self-employed

Source: HWF survey

8.3 Conclusion

In this chapter I presented the main labour market outcomes that are of interest to illustrate and complement the analysis in the previous chapters. The conclusion of this analysis is straightforward: labour market outcomes are more employee- and employment-friendly in the Czech Republic than in Hungary. In comparison with the situation in 1989, in the Czech Republic there is more employment, wages are higher, the informal sector is smaller, flexible types of employment are less precarious, weekly working hours are lower and working time patterns are more regular. Or: much more people have employment in the Czech Republic and the quality of this

employment is higher than in Hungary. A slight exception is that standard employment is somewhat higher in Hungary.

This adds two main points to the previous chapters. One is that the more social and employment-oriented Czech path of post-socialist transformation has indeed had more social and employment-friendly outcomes that the more market-oriented Hungarian path. Hence, alternative strategies also have distinct outcomes. Secondly, the labour market outcomes put institutions and policies in perspective. For example, whereas in the previous chapter it was shown that the Czech Republic makes less efforts in terms of active labour market policies than Hungary, it does so in a context where employment levels are much higher.

Chapter 9 Conclusions

To conclude this study, here I will reintegrate the different elements of the model presented in chapter 1. This will allow me to answer the two question posed at the outset: (i) how do the two labour market regimes in the two countries vary from an ideal-type neo-classical market economy; and (ii) which factors have determined the course of change of the labour market institutions in the two countries after the breakdown of state socialism.

9.1 Labour market regimes

As to the first question, in chapter 1, I defined an ideal-type neo-classical market economy as a social order in which economic processes are exclusively co-ordinated by market mechanisms. In institutional terms, such an economy, including its labour market, consists of a state which, ultimately through its monopoly on coercive power, guarantees the maintenance and enforcement of an institutional environment in which individual actors can conclude contracts with a content to be determined exclusively by these same individual actors. To determine how the two labour market regimes vary from such an ideal-type regime then becomes a matter of exploring what the role of the four actors in the labour market is, and how they, through labour market institutions influence the functioning and structure of the labour market.

Clearly, the two cases do not come close to this ideal-type market. The transformation after the demise of state socialism has not resulted in anything close to a 'pure' market. In both cases, the role of the state goes much beyond that enshrined in this market's definition. Through labour legislation, employment and labour market policy and wage policy, the state influences, among others, the creation and destruction of employment and the content of the employment relationship, as well as it defines rights and obligations for the unemployed through labour market policies. Also, other (collective) actors, i.e. trade unions, employers, the EU and the IMF, exert influence of these institutions. In addition, unions and employers engage in collective bargaining and collective agreements in both countries cover a substantial part of the employed. In some cases, these agreements are also extended to non-contracting partners. All this makes the cases deviate from an ideal-type market.

However, the cases do not differ from such a market to the same extent or in the same way. Starting in 1989-90, both countries adopted a series of quite similar basic institutions, regulating the basic principles of property rights, industrial relations and the employment relationship, exemplifying the change from state socialism to capitalism. This constitutes a major element of convergence between the two cases. But, as argued in chapter 7, institutional reform at the lower levels followed different trajectories, showing both converging and diverging tendencies. On the aggregate, Hungary has been the more market-conform case and the Czech Republic the less market-conform case. This follows from the greater role of the market in Hungarian employment policy, the lower coverage of collective agreements, the less market-restricting character of the content of collective agreements (facilitated by the respective regulations in its labour legislation), and the larger informal sector.

The aggregate picture does not tell us everything however, since major differences can be observed within each case and over time. In both cases, at any point in time, major differences between the character of the different institutions can be observed, some of them being more and others less in line with the market. For example, in the early 1990s, in Hungary employment policy was largely market-oriented, while wage policy firmly restricted the market. In the Czech Republic, unemployment benefits were very limited by 2000, however, at the same time the state stepped in to extend collective agreements. Also, within the four areas important change has taken place over time. In both countries, in 1990-1992 profound changes were made to all of the institutions under scrutiny, including a new or profoundly modified labour code, new legislation governing labour market policies, new facilities for collective bargaining, and others. But the picture did not remain static afterwards. For example, in the Czech Republic the minimum wage was an important floor in the market in the early 1990s, then lost this function for a number of years, but by the end of the decade it was substantially increased, regaining much of its role of an effective wage floor. This example exemplifies the fact that after the initial wholesale changes, a complex process of deregulation and re-regulation could be observed.

Hence, a simple, one-dimensional characterisation of the cases would not do justice to their complexity. Still, throughout the post-1989 period as well as in the end of the period of analysis, Hungary has been closer to the ideal-type than the Czech Republic.

Differences between the two countries have been exacerbated by the way labour market structures have developed. Whereas in 1989 the number of employed was more or less equal in the two countries, in subsequent years a gap emerged as employment levels plummeted in Hungary while declining much slower in the Czech Republic. This gap reached its maximum of some 1.5 million jobs in 1996. Since then the difference decreased but remained substantial in 2002, amounting to some 800,000 jobs. Also during most of the period, i.e. after 1994, Czech wages were higher compared to their 1989 level than in Hungary, the difference being 15 percentage point by 2003. Hence, the Czech post-1989 path of transformation was more employment friendly and employee friendly in that it provided for more employment and higher wages.

The difference between the two countries is further sharpened by three other factors. First, the Hungarian labour market has a larger informal sector, strengthening its market character in the sense that in the informal sector the definition of the content of the employment relationship is left to the individual contracting partners (contrary to the market, the state does not guarantee enforcement of contracts in this sector). The Hungarian labour market is also more precarious, again because of the larger informal sector but also because of the higher incidence of precarious types of flexible employment, and because of higher weekly working hours and a higher incidence of irregular working time patterns.

Summing up, in both cases the labour market regimes are far from ideal-type markets. Collective actors, through labour market institutions limit the role of the market in a variety of ways. However, they do so to a much larger extent in the Czech Republic than in Hungary. The former is more employment-friendly and employee-friendly: the Czech labour market has higher employment levels, higher wages, and less informal and precarious employment.

9.2 Understanding institutional change.

The second question to be answered is which factors have determined the course of change of the labour market institutions in the two countries after the breakdown of state socialism. In de period under study, in both countries, institutional change ranged from fourth order (systemic) to first order change. In the initial post-1989 years, i.e. under the first governments and specifically during the period 1989-1992,

the most profound and transformative institutional innovations took place. Basic capitalist labour market institutions were put in place through the adoption of new labour legislation governing individual and collective labour relations, unemployment benefit systems and active labour market policy programmes were set up or profoundly modified, and genuine collective bargaining emerged. It would be a mistake, however, to view institutional change here as following the basic sequence proposed by the narrow definition of path dependence, i.e. institutional stability → a critical juncture of intense change → institutional stability. Rather, the cases show that although there was a period of strongly disruptive change in 1989-1992, the subsequent years (as well as the previous ones) were not characterized by stability. Indeed, after 1992, change was on the agenda at all times (as it was in the 1980s, especially in Hungary). Change may have been less disruptive and more incremental in this period, but certainly it cannot be characterized as a period of stability. In addition, in some cases this incremental change had transformative results and could be considered gradual transformation (Streeck and Thelen 2005). An example of such gradual but transformative change is the gradual tightening and downscaling of the unemployment benefit system in both countries, transforming them from universalistic unemployment welfare regime into a liberal-minimal regime within the course of some ten years. Another example would be wage policy, since the role of the state in wage setting was only gradually abandoned and remained of key importance until 1995-1996 in both countries. Hence, over the period under study, institutional change has been a continuous process, albeit with episodes of higher and lower intensity. This intensity has also differed for the various institutional areas under study. And, as will be further discussed below, even in the period of most profound change there has also been continuity.

At the center of these processes of institutional change are the actors of the model presented in chapter 1. They shape and re-shape institutions, sometimes through minor adjustments, sometimes through radical innovations. In doing so, they attempt to create an institutional environment that reflects their normative and cognitive frames, that helps them to pursue their interests, or that incorporates learning from past performance. These processes are naturally not without struggles as the views of the different actors often do not coincide, and both conflict and compromise have been part of actor relations.

To gain an understanding of the direction these actors have been giving to institutional change, a number of explanatory elements, integrated in the model presented in chapter 1, were examined. It was argued that, instead of giving exclusive preference to one single approach, a number of elements should be combined to get a real understanding of the changing of the labour market institutions discussed in this study. The subsequent chapters have shown that this is indeed the case. Instead of one-dimensional explanations, a multi-dimensional approach is required to do justice to the complexity of the empirical cases. Below I will summarise the way the various elements of the model influence institutional change.

History

The development of the two cases after 1989 has clear links with the past. First, pre- and post-1989 developments should be seen in the light of the continued quest for modernization, which had already dominated the nineteenth and twentieth century. Although a fundamental change took place in the ideas on how to achieve modernization, this quest continues to be a defining feature of today's societies and is one of the basic factors driving actors in their search for new solutions and strategies. Second, there is historical continuity in the more market-conform character of labour market institutions in Hungary compared to a more market-restricting character in the Czech Republic. This counts for the longer term, going back to the late 19th century and the inter-war era, as well as for the shorter term as the differences in this respect were especially marked in the 1980s. These differences continued to be reproduced after 1989 as actors continued to hold on to previously developed ideas and strategies they were familiar with. Third, in both cases, many of the important post-1989 actors developed their ideas about how the economy and society should look already before 1989. Hence, these ideas were rooted to an important extent in the past and did not simply 'appear' with the toppling of state socialism. Fourth, in Hungary a stratification of the population and the definition and articulation of political groupings took place before 1989, while in the Czech Republic it did not. Consequently, the first Czechoslovak government represented a broad range of ideas and interests, while this range was much more limited in Hungary. As a result, the initial years of the Czech post-1989 reform path represented a much broader range of ideas and interests than the narrower Hungarian one. Clearly, the present is rooted in the past, the creation of capitalism in the 1990s did not take place upon a *tabula rasa*,

and the different histories of the two cases is one of the explanations for diverging post-1989 developments.

International ideational context

Post-1989 developments did not take place upon a historical *tabula rasa*; neither did they take place in an ideational vacuum. Domestic actors in the two cases did not develop their normative and cognitive frames in isolation or solely reflection on their own historical experiences. In many occasions they adopted or adapted externally-developed ideas, both before and after 1989. The main focus here was on ideas developed in the western European countries and the US, as well as by international organisations like the IMF, the World Bank, the EU or the ILO. The international ideational context contains a wide diversity of ideas concerning the shape labour market regimes can or should take. These do not all have the same weight however. On some broad and basic ideas a near-consensus prevails internationally; they are widely accepted to be legitimate or as having demonstrated their value in terms of e.g. promoting economic or employment growth. This concerned in very general terms the belief in capitalism as a superior system compared to state socialism, one of the main ideas driving the demise of the latter. Other broadly sanctioned ideas concerned those related to human rights and international labour standards, as well as to the benefits of EU membership. Such generally accepted ideas have had a converging influence on the actors within the individual cases as well as between the cases. Indeed, on these issues consensus largely prevailed in the two cases.

Other ideas have been dominant but not in such a general sense. Paramount here has been the dominant monetarist-neo-liberal discourse, which has been strong and has had a clear influence on domestic discourses and policy making in both countries. For example, in both inflation and budget deficits are seen as detrimental, while the market is accepted as the central mode or regulation. In this way, the international ideational context has been a major instrument for the IMF, the World Bank, the EU, rightist politicians and orthodox economists to influence domestic actors in the two cases. Their relentless and well-resourced insistence on the importance of monetarist and neo-liberal ideas has been an important factor in shaping domestic discourses. In this fashion, they have had an indirect but profound impact on the course of domestic reform.

However, as in western countries, to a varying extent also non-market modes of regulation are seen as normatively or cognitively sound by a number or actors, often making reference to specific European countries or to the European Social Model. Hence, the domestic actors in the two cases had a variety of ideas to draw from and where this resulted in diverging views it has been dependent on the power position of the actors which positions or compromises would prevail.

Ideas, interests and actor relations.

Institutional change has been driven by domestic and international collective actors, each with their own ideas and interests, aiming to influence the shaping and re-shaping of labour market institutions. As pointed out above, within each of the cases there have been examples where there was (near) consensus among these actors on the direction institutional change should take, for example, concerning the main orientation of change (modernization through capitalist development, the goal of EU membership) and concerning some of the basic labour market institutions (basic features of the employment relationship, freedom of association, right to strike etc.). In many cases, such consensus was absent. In these cases, the ability of actors to influence institutional change has been mediated by their power relations and patterns of interest representation, i.e. by the type of actor relations.

In chapters 1 and 4, it was argued that the cases can be located in a triangular space marked by three ideal-types of actor relations: étatism, neo-corporatism and imperialism. The question posed was how much of each of these ideal-types can be found in the two cases. Or, to rephrase this, what influence of the actors representing these ideal-types, i.e. the state, trade unions and employers, and the IMF and EU, have had on the definition of the regulations and policies of the newly emerging labour market regimes, as well as their evolution over time.

Comparing the two cases, a number of communalities and differences can be observed. Most importantly, both cases have had a predominant étatist character: the state clearly has been the most powerful actor and has been to a large extent been controlling the reform of labour market institutions. Like in previous historical periods, the state has had the lead in the reform of labour market regulations and policies, confirming it as the key actor in the post-1989 modernization project. Hence, in the triangular space marked by the three ideal types of actor relations both cases are located closest to the étatist corner.

However, also international actors and social partners have to some extent been able to influence rules and regulations made by the state or have developed their own through, for example, collective agreements. Hence, the cases are not simply located in the top corner of the triangle; both include elements of neo-corporatism and imperialism as well, albeit it to different extents.

Where imperialism is concerned, during the 1990s, the IMF exercised substantial power over government policy in Hungary. It based its power position on Hungary's high debt and need for capital, and used it to push the country's labour market regime further towards the market. Only by the end of the 1990s the IMF lost this power position when the Hungarian government continued to serve its debt but did not enter into new major agreements. In the Czech Republic the IMF never got a similar power base and has been of minor importance. This has been one of the factors explaining the fact that Hungary took a more market-conform path after 1989 than the Czech Republic.

A further element of imperialism has been introduced by the EU. Through its accession criteria, the EU has obliged the two countries to adopt certain labour market regulations. This form of EU imperialism, largely similar in the two cases, remained however limited for two reasons. First of all, the social *acquis* is restricted: the EU has only a limited set of regulations that concern the various dimensions of the labour market regime and labour market regimes remain largely determined by national regulations. Secondly, the adoption of EU regulation has in some cases been rather symbolic, as shown, for example, by the Czech way of incorporating the EU works council regulations.

Hence, the role of imperialism would seem restricted, with its main expressions being the IMF dictating certain reforms in Hungary during the 1990s and the EU imposing a limited set of regulations during the accession period. However, only considering these direct forms of imperialism, where international actors actively impose rules and regulations, underestimates the importance of these same international actors. As discussed in the previous section, they have been important players in shaping the international ideational context and in this way they have had a profound impact on the course of domestic reform by shaping domestic ideas. This could be considered a form of 'indirect imperialism', not involving the direct imposing of regulations in exchange for membership or financial support, but aimed at influencing the normative and cognitive frames of the domestic actors.

In addition, where the EU is concerned, since EU membership was one of the main objectives for both countries, from the early 1990s onwards they undertook to assure that their domestic regulations would not contradict those of the EU. Hence, also in this way the EU exercised a passive influence on the cases.

Apart from these international actors, also the trade unions have played a meaningful role in both countries, partially through neo-corporatist arrangements and partially through collective bargaining. Trade unions have however been more powerful in the Czech Republic than in Hungary. In the Czech Republic unions had a stronger position because of a number of reasons. It was more united, managed to better contain membership losses, to conquer more meaningful institutional positions, and to conclude more and more employee-friendly collective agreements than its divided Hungarian counterpart. The Czech trade unions were particularly influential under the OF and Zeman governments, which also deliberately provided space for the unions. As a result, the Czech unions exercised greater influence on government policy and contributed to the more employment and employee-friendly character of the Czech labour market regime.

Employers' organizations have been weak actors in both cases and have failed to actively influence the course of change. Their main influence has rather been a passive one: by not being able to conclude sectoral collective agreements following the unwillingness of many of their members to give them the respective mandate, they played a key role in the decline in the coverage of collective agreements in both countries and in the decentralization of industrial relations.

Differences in the influence of non-state actors do however not sufficiently explain the different paths the two countries have followed. Independently from these differences, the state has been pursuing different types of reform in the two cases. In Hungary, the state favoured a stronger market orientation than in the Czech Republic. This has been the result, to some extent, of a continuation of historical differences between the two. In line with previous experiences, Czech political actors, and in particular the Czech social democrats, considered the state to have an important active role to play in employment preservation and creation than their Hungarian counterparts, who abandoned any notion of full employment and left employment creation to the market. This was further strengthened by the fact that in particular the first post-1989 government in Czechoslovakia represented compromise positions

rather than homogeneous views, incorporating the views of both the monetarist-neo-liberals and the social democrats.

Summarising, in both cases étatism dominated, however: (i) the state pursued a more market based labour market regime in Hungary and a more employment- and employee-friendly one in the Czech Republic; (ii) in Hungary imperialism played a much greater role than in the Czech Republic because of the strong position of the IMF during the 1990s, which allowed the Fund to push for a more market-based labour market regime; and (iii) in the Czech Republic neo-corporatism played a greater role than in Hungary because of the stronger position of the unions, which allowed them to push for a more employment- and employee-friendly labour market regime.

Labour market structures

Finally, the development of labour market structures has been important in understanding institutional change. These labour market structures have been key indicators for the outcomes of the process of transformation. They have provided feedback to actors on the functioning or effect of institutions. Indeed, they provide actors with the opportunity to learn and to reflect on the need to adapt institutions and policies accordingly.

Taking all these elements of the analytical model into account, how can they be related to each other? The historical background of the cases determined their starting position in 1989, consisting of a set of actors with their ideas and interests, a set of labour market institutions, and a configuration of the labour market. These were the outcome of historical processes, including elements of long-term continuity which would survive the turmoil of 1989, but also of frequent instances of more and less profound change. Ideas have also been strongly influenced by the international ideational context. After 1989, domestic and international actors started to modify the labour market institutions, aiming to mold them according to their ideas and interests. The extent to which they managed to do so depended on the extent to which ideas and interests conflicted and to which they were in the position to impose (part of) their favoured rules and regulations. Developments in labour market structures then allowed them to learn about and reflect upon the functioning of labour market institutions and to consider the need for further change.

Actors have been shaping and re-shaping labour market institutions throughout the post-1989 period and change has been profound. Still, this does not mean that institutions could be changed whenever and however these actors prefer. During the 1989-2002 period the scope for institutional change remained circumscribed, basically by the same factors that explain the course of change. The starting point in 1989 allowed for multiple development paths towards the future. However, it also set limits to future developments. For example, the initial absence of strong employers' organizations combined with the dominant position of neo-liberal thought largely foreclosed the possibility of developing a strong sectoral dimension to collective bargaining. Present EU-supported attempts to develop sectoral dialogue in Hungary show how difficult it is to overcome this initial situation. Likewise, the fact that certain basic labour standards like the right to strike or the right to collective bargaining are normatively so strongly sanctioned by the international community, made it impossible for those who would like to avoid the institutionalization of such rights to achieve their goals. Finally, well-established ideas concerning, for example, the role of the state and the market, constituted elements of historical continuity that proved hard to change.

Also, newly established institutions allowed both to produce change and formed obstacles to change. For example, while the governments in both countries were able to peacefully make a number of changes to labour market institutions under the flag of tripartite councils, these same tripartite councils would block other types of changes the governments wanted to make as well. Also, once institutions were newly established or profoundly modified, it proved difficult to make further leap changes. It was often gradual (though sometimes transformative) change that proved most feasible after initial deep change. Hence, where actors have been able to produce profound institutional change, institutions have proven at the same time to be resilient and to structure action.

Finally, it is important to underline that to reflect the complexity of the empirical cases, our analysis needs to be able to incorporate a variety of causes for and mechanisms of institutional continuity and change, instead of single-factor theories forwarding 'constant causes' (Streeck and Thelen 2005; Campbell and Pedersen 2001). All elements of the model presented in chapter 1 were needed in the analysis to come to a proper understanding of institutional change in the two countries and none of them alone would produce a satisfactory result. This suggests that neo-

institutionalists need to tear down the walls of the different institutionalist schools and dedicate more attention to the development of more comprehensive explanatory models that help to understand why and how institutional change takes place (or does not take place) and what direction it takes.

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