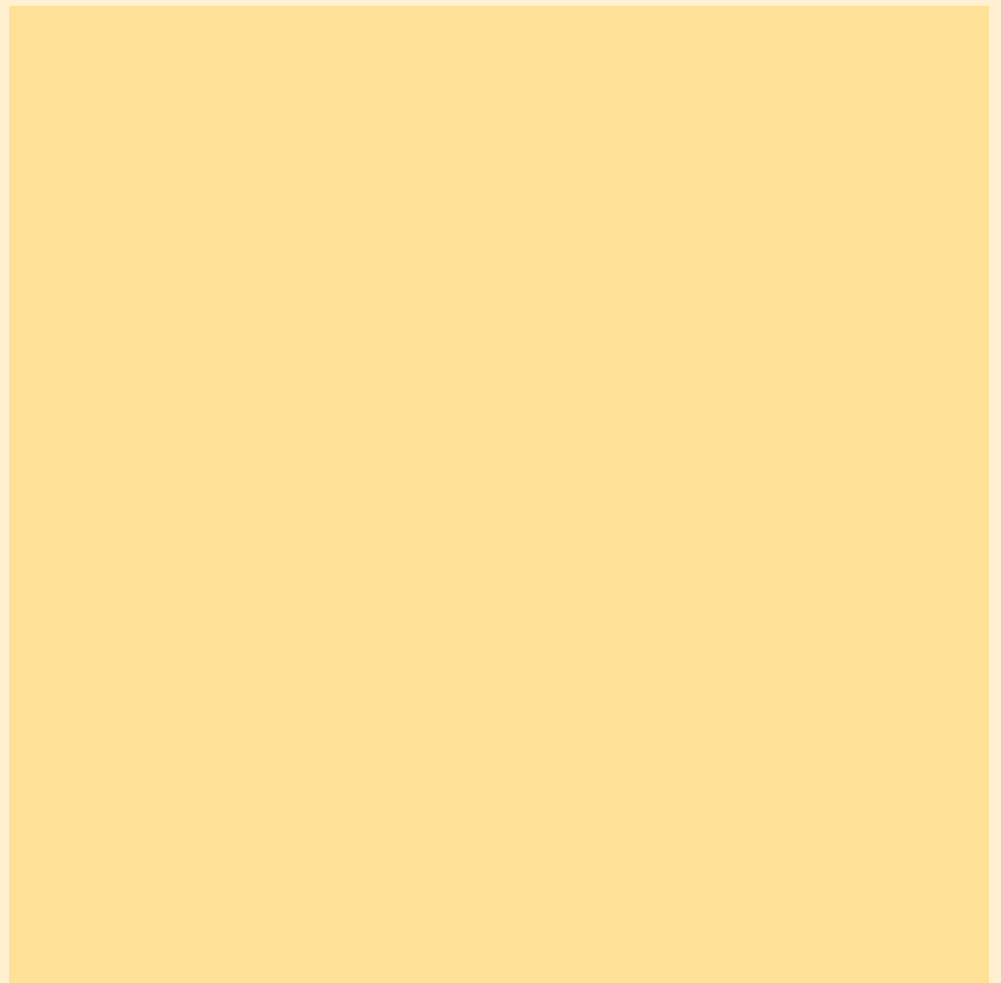




# Social dialogue and EMU in the candidate countries



Estonia, Hungary, Malta, Poland and Slovenia

# Social dialogue and EMU in the candidate countries

Estonia, Hungary, Malta, Poland and Slovenia



Work Life and EU Enlargement is a cooperation project aiming to build and exchange knowledge within the field of working life in order to facilitate the enlargement of the European Union. All candidate countries participate in this project, which is run by the Swedish National Labour Market Board.



European Foundation for the Improvement of Living and Working Conditions

# Social dialogue and EMU in the candidate countries

Estonia, Hungary, Malta, Poland and Slovenia

Luxembourg: Office for Official Publications of the European Communities, 2003

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# Foreword

'The role of social dialogue in the preparation for Economic and Monetary Union (EMU) in the candidate countries' is a research project of the European Foundation for the Improvement of Living and Working Conditions, carried out in cooperation with the Work Life and EU Enlargement project of the Swedish National Labour Market Board. During the first phase of the project, the following five candidate countries have been included in the research: Estonia, Hungary, Malta, Poland and Slovenia.

The purpose of the project is twofold:

- to bring employers, trade unions, governments and researchers together for the purposes of investigation and analysis;
- to show how social dialogue can best be utilised in the candidate countries' preparation for EMU in order to generate economic growth in harmony with employment and social protection.

The project was launched at an 'exploratory conference' in Aske, Stockholm, in 2001, where the aims of the project were discussed and the pilot countries selected. Each of the five tripartite national teams comprised two government representatives, as well as representatives from trade unions and employers' organisations. In May 2002, the project managers organised a workshop in Vienna, during the course of which all five countries drafted national development programmes for joint implementation by governments and social partners. A researcher from each of the five countries presented a background paper describing the economic, political and industrial relations situation in each country.

In October 2002 the reports were presented to wider national tripartite fora via local seminars, the aim being to gain approval for the proposed national programmes. The final reports were presented to the Danish EU Presidency Conference on 'Tripartism in the Enlarged Europe' in Elsinore in 29-30 October and then forwarded to the Ministries of Labour and the relevant national tripartite bodies for implementation.

The present report presents the individual country studies and describes the national development projects currently being fostered and implemented through social dialogue in the candidate countries. The political implications resulting from implementation of the EMU criteria are also touched on. The main aim of each country report, however, is to deal with the national systems of industrial relations, especially the capacity of each country to support the convergence process towards the Maastricht criteria by means of social dialogue.

In the light of the decision taken at the EU Presidency Summit in Copenhagen in December 2002 to enlarge the European Union to 25 Member States within the next two years, this project is both timely and relevant. It is for this reason that the Foundation and the Swedish Work Life and EU Enlargement project plan to extend it in 2003 to the five candidate countries which will join on 1 May 2004: Cyprus, the Czech Republic, Latvia, Lithuania and Slovakia.

Raymond-Pierre Bodin  
*Director*

Willy Buschak  
*Deputy Director*



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# Introduction

*Timo Kauppinen and Christian Welz,*

*European Foundation for the Improvement of Living and Working Conditions*

## **The Foundation project: 'EMU and social dialogue'**

### **Objectives**

The purpose of the Foundation's research project, 'Social dialogue and Economic and Monetary Union (EMU) in the candidate countries', is to bring employers, trade unions, governments and researchers from the candidate countries together in order to investigate and assess how social dialogue can best be utilised in the preparation process for EMU. The intention is to show how social dialogue can be harnessed to generate economic growth in conjunction with employment and social protection in the candidate countries (following the signing of the accession treaties in Athens on 16 April 2003, the former have become the 'accession' countries).

The 'EMU and social dialogue' project is based on earlier Foundation projects on the social implications of EMU and an ongoing project dealing with the Europeanisation of industrial relations. An additional aim of the project is to assist the candidate countries to adapt to the Maastricht convergence criteria by using social dialogue as a tool, while drawing on the experiences of existing Member States.

### **Background**

The Foundation has been carrying out its development project in cooperation with the Swedish government Work Life and EU Enlargement. The project was initiated in 2001 by means of an 'exploratory conference' held in Aske, Stockholm. This conference served as the launching pad for the project and for the selection of the pilot countries for inclusion in the first phase. The group of candidate countries chosen are Estonia, Hungary, Malta, Poland and Slovenia.

Preparatory meetings were organised in the participating countries in February and March 2002. At these meetings, it was agreed to organise a joint development workshop in May 2002 in Vienna, for the purpose of drafting the national development projects. It was intended that these national development programmes would be implemented jointly by the social partners and the governments of each country.

The five tripartite national teams consisted of two representatives from the governments, as well as representatives of the trade union and employer organisations. At the Vienna workshop, a researcher from each of the five countries presented a background paper charting the economic, political and industrial relations situation currently prevailing in each country, as well as presenting an outline of the development programme which was destined to be elaborated on at the group sessions of the workshop. There was a common view that social dialogue was a valuable tool in tackling difficult national problems, even if plenty of efforts remained to be done in developing efficient structures for social dialogue in the candidate countries.

Following the workshop, the researchers refined the background studies as well as the development projects and in September 2002 national seminars were held in order to disseminate the results of the workshop and discuss the outcomes among wider national tripartite fora. At the end of the national workshops, it was agreed that the conclusions were to be incorporated into the drafting of the final papers. The amended reports were subsequently sent to the social partners for evaluation and approval.

The final reports were presented at the Danish EU Presidency Conference on ‘Tripartism in the Enlarged Europe’ in Elsinore on 29-30 October and later submitted to the Ministries of Labour and the relevant national tripartite bodies in order to be implemented.

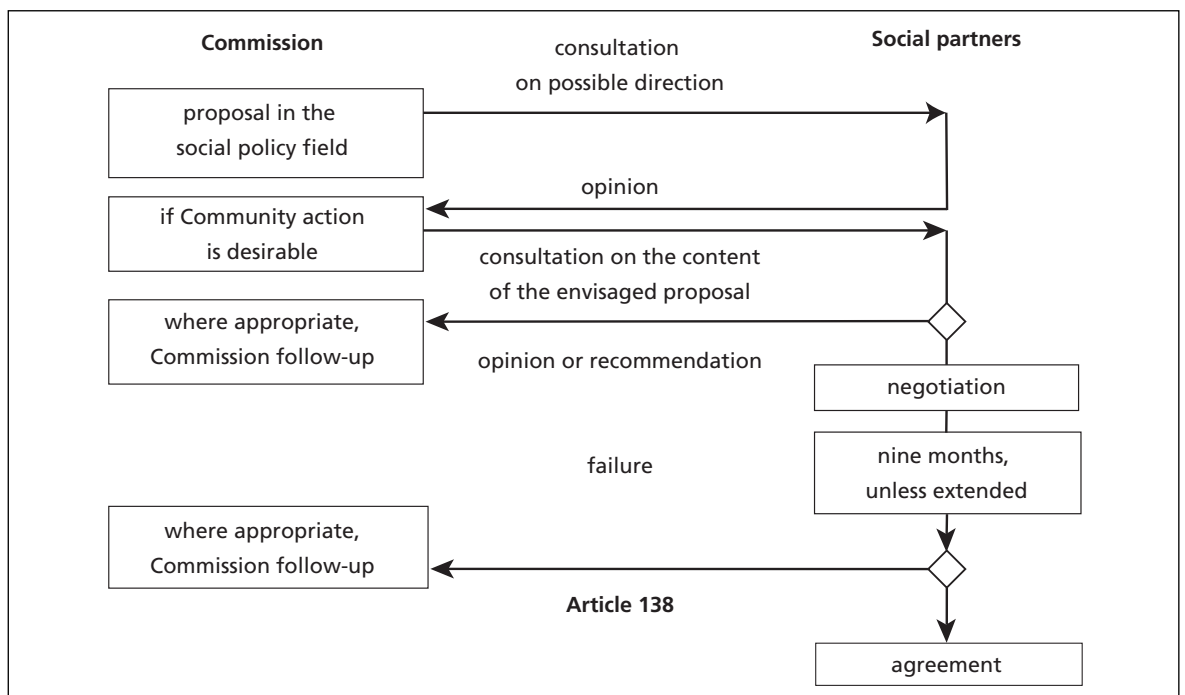
**The evolution of social dialogue in the EU**

The early roots of European social dialogue go back to the 1970s when social partners were consulted, on a ad hoc basis, on European-level issues. However, from 1985 onwards, at the initiative of European Commission President Jacques Delors, social dialogue took on an autonomous bipartite form in preparation for the single market.

The Treaties of Rome (1957-58) had included sections on the free movement of workers and the equal treatment of men and women. In 1958, the employers’ organisations created the European-level organisation UNICE and the trade unions followed suit in 1973, an initiative which led to the establishment of the European-level central trade union body ETUC. At the same period, the worldwide trade union movement was split into the International Confederation of Free Trade Unions (ICFTU), in which both the United States and Europe played an important role, and the Soviet Union led World Trade Union (WTU).

Under these circumstances, the development of a European-level industrial relations system was not progressing with great speed. It took almost thirty years before the next decisive step was taken. This happened in 1985, when the EU-level social partners were asked to participate at a high-level meeting in Val Duchesse in Belgium. The meeting was to reaffirm the importance of the social partners in the process of European construction. It proved to be the first step in what became known as the ‘Val Duchesse’ period of dialogue (1985-91), when bipartite social partner activities consisting principally of joint opinions, resolutions and declarations took place.

**Figure 1 The social dialogue under article 138**



Source: European Commission, *Industrial relations in Europe 2000*.

The Maastricht Treaty of 1991-1993 marked a new phase in the social dialogue process. New social policy provisions became part of the Social Protocol, first annexed to the Maastricht Treaty and later integrated into the Amsterdam Treaty. These established a new mechanism by means of which European-level agreements could be negotiated and, if the social partners so desired, transposed into the national legislation of the Member States by means of a directive or voluntary agreement. This new mechanism has been enshrined in articles 138 and 139 of the EC Treaty. It was on this basis that the first negotiations of the social partners took place, and agreements were signed on parental leave (1995), part-time work (1997) and fixed-term contracts (1999), subsequently to be implemented as directives.

The European Employment Strategy (EES) agreed upon in Luxembourg in 1997 gave social partners the right to participate in drafting national action plans implementing the EES and to shape decision-making in this area via the open method of coordination (OMC). The so-called 'Cologne process' of 1999 allowed social partners the possibility to participate in European-level macroeconomic dialogue. In the same year, the European Commission initiated the setting up of sectoral social dialogue fora. Currently, there are 27 different sectoral committees striving to promote sectoral social dialogue.

The European Company Statute, the first draft of which goes back more than 25 years, was finally enshrined in 2001. It gives workers the right to participate in company board meetings according to a new European Company Law.

In addition to the secondary community law-making, European-level industrial relations is also being shaped by the collective bargaining processes. In 1997, the European Metalworkers' Union launched an initiative to coordinate collective bargaining by gathering and distributing information from different EU countries. In July 2002, the social partners concluded a European collective agreement on telework. This agreement is not destined to be forged into a directive, but the agreement will be transposed via national collective agreements in three years' time. If this initiative proves successful, it is almost certain that this agreement will be followed by other European collective agreements in due course.

### **Social dialogue and EMU in the Member States**

Social dialogue played a central role in the EMU convergence process in many of the EU countries. This is shown in the Foundation's research project on the social impact of EMU. The governments needed the help and support of the social partners and the social partners were happy to have a chance of influencing the content of the adaptation process. Social pacts between the social partners and the state in relation to the EMU convergence were concluded in seven countries. Moderate wage policy supported the low inflation target.

Different models of industrial relations prevail in the European Union, ranging from a very centralised model as in Finland, Ireland and Belgium to a union and company-level model of negotiation in France and the UK. The most common way to negotiate wages in the EU countries is through sectoral-level collective bargaining. In the USA and Japan, in contrast, very decentralised company-level agreements are the norm.

In spite of the very different models, the research shows that social dialogue played a decisive role in the adaptation process towards the Maastricht convergence criteria. In Spain, Portugal and

Greece, the governments gained strong support from the social partners for the convergence process. In Finland, Ireland, the Netherlands and Belgium, the social partners negotiated social pacts for moderate wage increases and the government supported the agreement with tax reliefs and social packages. The outcome was very moderate, centralised collective agreements, which supported the governments' economic policy targets of adapting to the EMU convergence criteria.

The third group of countries, which includes Germany, Austria and Italy, adapted to the EMU convergence criteria by means of sectoral collective agreements. In these countries, sectoral collective agreements were aimed at supporting the general EMU policy process. Wage agreements were moderate, only a 1-3% increase, and the changes regarding social protection were modest.

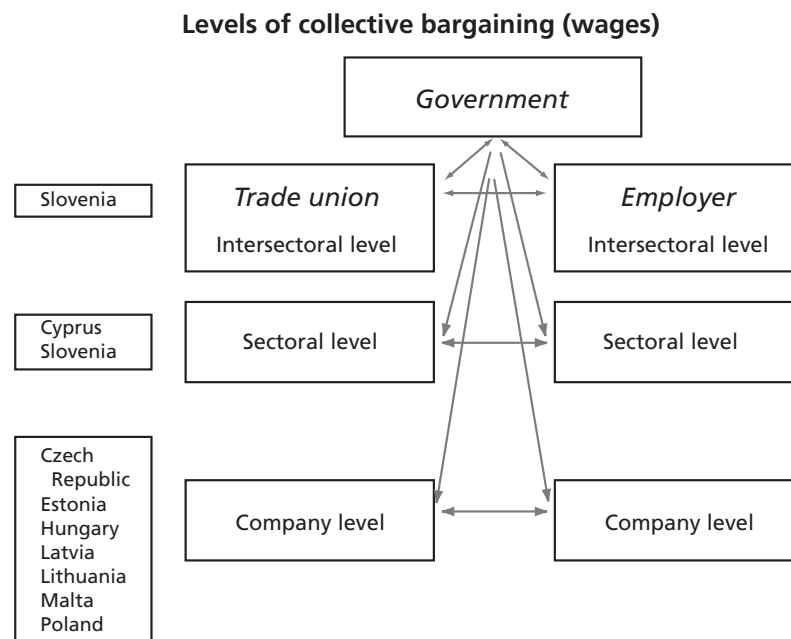
In France and the UK, collective agreements are decentralised at company level. In France, company-level agreements extend to sectoral agreements and agreements are by law extended to cover unorganised employees. In spite of the decentralised nature of social dialogue, wages development was very moderate, supporting the government targets of low inflation and a healthy national economy.

It is also worth mentioning that even in Sweden, Denmark and the UK, countries which opted out of EMU, the social partners were supportive of the government policies for adapting to the Maastricht criteria.

**Social dialogue and EMU in the candidate countries**

Once the candidate countries become full members of the EU, they will have to adapt their economies gradually to the Maastricht criteria if they wish to join the Eurozone. Can social dialogue play an important role in this process? Can the candidate countries draw on the experiences of the Member States? These were the crucial questions to be addressed when the project on 'Social dialogue and EMU in the candidate countries' was initiated.

**Figure 2 Level of collective bargaining in the candidate countries in 2002**



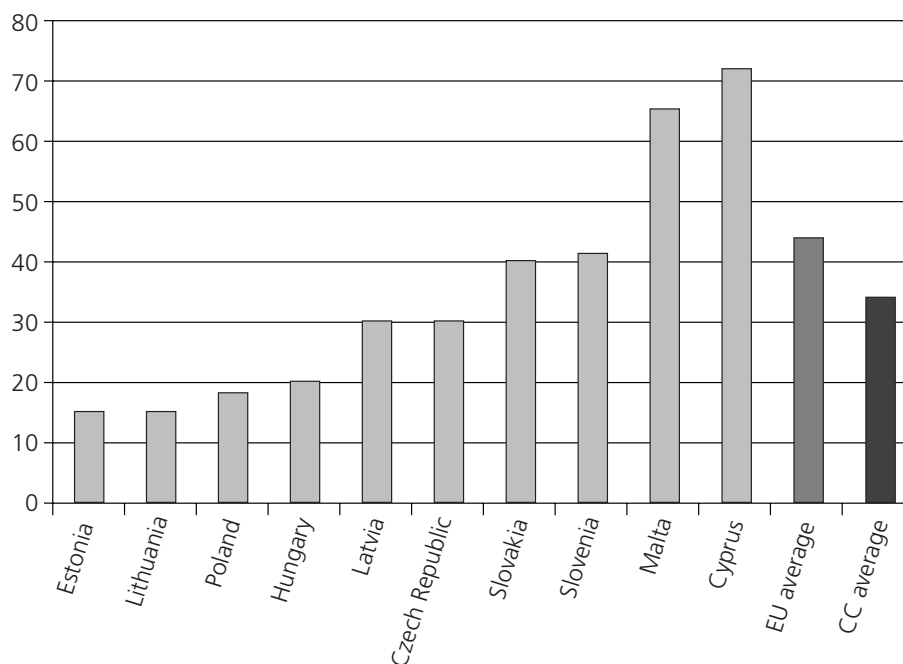
Source: Five country reports and EIRO 2002.

In most of the ten candidate countries, the system of industrial relations is very decentralised. Wage negotiations take place mainly at company level. Only in the public sector do negotiations take place at sectoral level and in this sector also the rate of unionisation is quite high. Slovenia is the only country where the social partners negotiate at intersectoral level. In Slovakia and Cyprus, the main level of collective bargaining is sectoral. The remaining seven candidate countries agree wages at company level.

However, it would be wrong to say that in these countries there is no centralised negotiation structures. For example, in Hungary, both social partners and the state agree on minimum wages and pensions. Similar structures are also found in other candidate countries.

Unionisation rates in the candidate countries are at quite a low level, with only one third of employees belonging to a union. The strongest unions are found in the public sector, especially among teachers and nurses. In the newly created companies, the unionisation quota is at a very low level. In Estonia, for example, only 1-2 % of employees working in newly set-up companies are unionised.

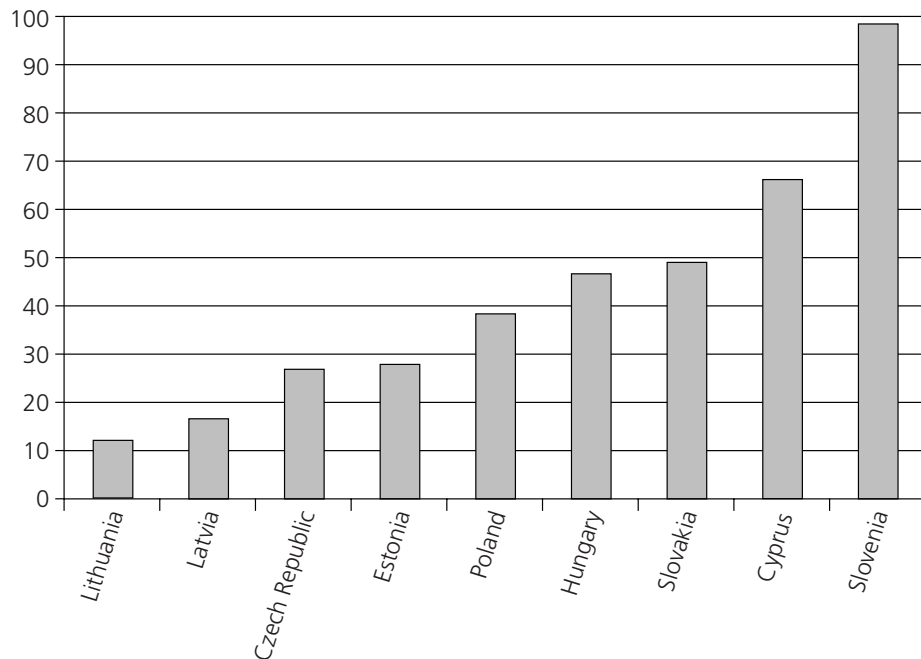
**Figure 3 Level of employee unionisation in the candidate countries in 2002 (%)**



Source: European Industrial Relations Observatory (EIRO), 2002.

The lowest unionisation rates are found in Estonia, Lithuania and Poland, where less than one fifth of employees are unionised. The highest figures, about 60-70%, are in Malta and Cyprus. Unionisation rates in the candidate countries are on average about 10% lower than the situation in the current Member States.

**Figure 4 Coverage of collective agreements in the candidate countries (%)**



Source: European Industrial Relations Observatory (EIRO), 2002.

The low unionisation level is also reflected in the coverage of collective agreements in the candidate countries. The low level of unionisation in the candidate countries seems – at first sight – to be related to the low level of collective agreement coverage. In Slovenia, collective agreements are extended by legislation also to cover non-unionised employees.

Comparative information about the organisation rate of employers is lacking, but first analyses show that employer organisations are numerous, disparate and lacking influence and impact. Employer organisation unions are more inclined to lobby the governments than to negotiate collective agreements. This low level of union activity is one of the reasons why it is not easy to establish a well-functioning social dialogue in the candidate countries.

Research from the Foundation’s project into ‘Social dialogue and Economic and Monetary Union (EMU) in the candidate countries’, as well as input from the social partners reveals that the industrial relations system in the candidate countries remains in a fragile state. The following reasons for this are given:

1. Diverse nature of trade union and employer organisations
  - weak employer organisations
  - multiple employer organisations
  - less likely to have a collective bargaining role
2. Lower trade union density
  - still falling in some cases
3. Limited scope of collective bargaining
  - collective bargaining systems more decentralised

- less emphasis on intersectoral level
- more company-level collective bargaining
- lower level of collective bargaining coverage

#### 4. Widespread absence of works councils

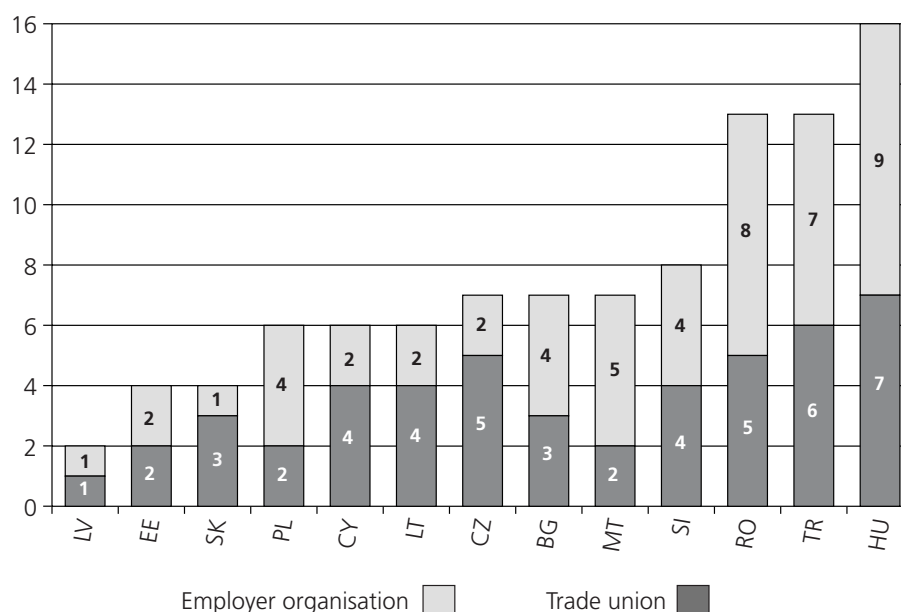
- except for: the Czech Republic, Hungary, Slovakia, Slovenia, Poland (public enterprises)

#### 5. Lack of social dialogue in the public sector

#### 6. Tripartism

- asymmetrical structures: strong governments in contrast to weak social partners
- adverse government intervention

**Figure 5 Social partner organisations in the candidate countries (%)**



Source: European Commission, *Industrial Relations in Europe 2002*

### National development projects in five candidate countries

In the course of the first phase of the project (2001-2002), the following national development projects were developed by national social partners and researchers:

*Estonia: Towards tackling youth unemployment through social dialogue.*

*Hungary: Towards EMU and social convergence through social dialogue.*

*Malta: Towards a culture of trust within the Malta Council for Economic and Social Development.*

*Poland: Towards a social pact for the young through social dialogue.*

*Slovenia: Towards EMU via a social agreement through social dialogue.*



### **Development project for Estonia: 'Towards tackling youth unemployment through social dialogue'**

The decline in the employment rate and the rapid growth of unemployment accelerated after 1997, when the Estonian economy experienced severe setbacks. Risk groups in the Estonian labour market include young people in the 16-24 age group, disabled persons, the long-term unemployed, mothers with small children, job-seekers who have lost their qualifications, people at pre-pension age and non-nationals. Unemployment growth has been especially rapid among young people, and the number of people who have been out of work for more than one year has risen. The unemployment rate among the youth has been rising and the risk of remaining unemployed after leaving school is also on the increase. In 2001, the unemployment rate among young people was recorded at 22.2%, the corresponding figure in the EU being 16.7%. In order to alleviate the problem, active and preventive employment measures are planned, the aim of which are to assist the youth in integrating into the labour market and enhance their capacity to adapt to a changing labour market.

### ***Objectives of the project***

- To plan education needs, especially vocational education. The aim is to identify the needs of students at an earlier stage in order to forestall potential risks and overcome existing problems. The objective is to guarantee a qualified workforce which will match labour market demands.
- To develop and implement active measures for the integration of young people into the labour market in Ida-Virumaa, South-east Estonia and islands, as part of the PHARE 2001 project on enhancing youth employment, 'Promoting the employment of youth'.
- To carry out a study on 'Adaptation of the youth in the labour market and factors influencing this'. The objective of the study is to analyse the adaptation capability of young people in the labour market, obtain an overview of the factors having an impact on professional success or failure, identify the issues for young people who have a higher risk of remaining unemployed and find ways to reduce unemployment among young people. As a result of the survey, recommendations for the implementation of labour market policy measures will be put forward in order to enhance the competitiveness of the youth labour market.
- To develop and pilot an employment measure/work practice with a view to assisting long-term unemployed people without special skills or work experience in finding employment (the proportion of young people among the long-term unemployed being very high).

### ***Actors responsible for implementation***

Action plans are being prepared in cooperation with the social partners and institutions responsible for the implementation of the programmes. These institutions comprise the Ministry of Social Affairs, the Labour Market Board, employment offices, the Ministry of Education, the Ministry of Economic Affairs, local governments, social partners and non-profit organisations.

Some projects (development of the vocational education system, active employment measures, etc) have already been operational for several years, while other pilot projects started in 2002.

### ***Funding***

Financing for the different projects comes from the following sources: national budget, bilateral cooperation projects, PHARE funding, and the Privatisation Reserve Fund (non-budget Government fund).

### ***Members of the project group***

The Estonian tripartite group in Vienna in May 2002 was composed of:

Government representative: Ms Eike Hindov

Employer representatives: Mr Vaike Parkel and Priidu Nomm

Trade union representative: Ms Hilje Ounapuu

The Estonian national seminar in Tallinn on October 2002 was made up of 14 trade union and government-level representatives. The employer representatives were not able to participate. The draft proposal was sent to the employers for comments.

Ms Kaia Philips and Mr Raoul Eamets drafted the Estonian report.

Ms Hilje Ounapuu presented the programme at the Danish Presidency Conference in Elsinore on 'Tripartism in an Enlarged EU' in October 2002.

### **Development project for Hungary: 'Towards EMU and social convergence through social dialogue'**

Social partners and the state share the view that joining the EU and EMU will have a major impact on the economic and social situation in Hungary. Taking into account the challenge of social convergence, the social partners and the state have produced an outline of the social partners' action programme in Hungary.

### ***Objectives of the project***

The main objective is to achieve real economic and social convergence. For this to happen, sustainable economic growth is needed. This can only be maintained through financial balance, which means that budget deficit, inflation, and state debt should be kept at levels which makes it possible to fulfil the Maastricht criteria in due course. Social partners and the state maintain that social convergence is equally important, and this process should accompany that of economic convergence.

The action programme should be implemented in three phases:

1. Up to the date of accession: pre-accession period (expected date of accession is 1 January 2004);
2. 2004-2006: Preparation for the European Monetary Union (during this period preparations could be completed);
3. 2006-2007: Full-fledged participation in EMU.

The social partners and the state are convinced it is important to implement the above objectives in order to maintain and develop the country's competitiveness, which is crucial both from the point of view of Hungary's export performance and of its stable and high economic growth. If this is achieved, sustainable development and social peace could be maintained, although the social partners feel that stable economic growth is a necessary but not sufficient prerequisite for human development.

***Actors responsible for implementation***

The main actors are the social partners and the state (government, employers and trade unions), and there is a joint view that the civil society (citizens themselves and NGOs) should also take an active part in the process.

The social partners and the state share the view that the action programme has to be implemented at central, regional and local level, and it is important that between them (in the division of labour) a proper balance should be established.

***Funding***

For the NDP in the first phase (i.e. up to 2004), national resources and pre-accession funds should be used, and later (from 2004 onwards) national resources and EU-funds.

***Members of the project group***

The Hungarian tripartite group in Vienna in May 2002 was composed of:

- Government representatives: Ms Maria Lado and Mr Zoltan Varga
- Employer representatives: Mr Antal Szabadkai and Ms Laszlone Szili
- Trade union representatives: Ms Barbara Kerek and Ms Erzebet Hanti.

The Hungarian national seminar in Budapest in October 2002 was made up of 35 high-level tripartite representatives.

Ms Klara Foti drafted the Hungarian report.

Ms Erzbet Hanti presented the programme at the Danish Presidency Conference in Elsinore on 'Tripartism in an Enlarged EU' in October 2002.

**Development project for Malta: 'Towards a culture of trust within the Malta Council for Economic and Social Development'**

*'The Malta Council for economic and social development is hereby established as an advisory body in order to provide a forum for consultation and social dialogue between social partners and, where necessary, with organisations of civil society, and is entrusted with the task of advising government on issues relating to the sustainable economic and social development of Malta.'* (Laws of Malta, Cap 431)

What follows are the conclusions reached as a result of a one-day national workshop in Malta at the end of the first phase of the project. Participants at this workshop included high-level representatives of the major trade unions, employer associations, government departments dealing with women's issues, social security, employment and industrial relations, as well as other labour market bodies and representatives of the academic community.

The aim of the workshop was to contribute towards a draft National Development Plan for Malta based on current social and economic realities. This plan would take into account the economic challenges as well as those arising from prospective conformity to EMU, noting that these are likely to result in some upheaval in employment and industrial relations in Malta. The draft plan calls for a 'renewed positive commitment to tripartite, social partnership'. While noting the existence of

the Malta Council for Economic and Social Development (MCESD), it also refers to the difficulties faced by this institution for tripartite dialogue in harmonising formal and informal industrial relations. The plan emphasises the need for specific action to bring about this renewal of social partnership.

Participants entered into a lively debate on the obstacles encountered in social dialogue in Malta, in itself and in the run-up to possible EMU convergence. Representatives affirmed that much bipartite negotiation is in fact very successful, and that it is usually only the rare problematic cases that catch media attention. Notwithstanding, it was generally agreed that there remains room for development and various problems were highlighted by participants. These include a 'trust deficit' among social partners, due to the tendency for defensive posturing and the occasional failure of one party or another to honour commitments. A second obstacle is the general failure in will or ability to prioritise the national interest, since negotiating parties often take a narrow and partisan approach. A third obstacle is the often ambiguous role of the government in tripartite negotiations – being both the largest employer in Malta as well as the policymaker and regulator. A further problem is the deficit in a range of skills necessary for effective dialogue and negotiation. The fifth and final obstacle is the tendency for successive administrations to simply create another institution every time a stalemate is reached, rather than addressing problems and making existing institutions work.

There appeared to be general consensus across the board on the need to address these issues through some sort of trust-building mechanism. Participants were then asked to reflect on the four questions which had been articulated by them earlier on. The first question dealt with whether Malta needed to create an institution to strengthen social dialogue that is separate from the current Malta Council for Economic and Social Development (MCESD). The MCESD exists in law and is governed by a tripartite executive board, though funded by the government. The general consensus among participants was that a separate institution is not needed but the MCESD does require significant reform if it is to function effectively. The second question concerned whether or not to include government – as policy maker and/or employer – in any new or revised social dialogue initiative. Most of the participants took the view that dialogue should occur at bipartite level – and here government was not strictly necessary except perhaps as employer – while negotiation should occur at tripartite level – and here, government should be involved.

The third question was whether or not to include civil society. Responses to this were more diverse. While most participants believed that civil society should be included, there were differences in opinion as to how these should be selected and as to the scope and level of their involvement. The fourth and last question was whether this 'trust-building mechanism' should be EU-neutral or take a position on EU membership. Again, opinions were divided. On the one side were those who asserted that, given the centrality of Malta's application and the prospective impact of conformity to Maastricht requirements, EU membership should be a central theme on the agenda. Others asserted that given Malta's polarised opinion on membership, doing so might compromise the trust-building exercise. Yet others stated that Malta must conduct these economic reforms whether it joins Europe or not.

### ***Objectives of the project***

At the end of the seminar there appeared to be a consensual view of the way forward. This has three main components. First, that tripartite negotiations currently occurring at MCESD are to be

strengthened and better resourced; consultees are to be given enough time to comprehensively analyse documents and proposals; and commitments made are to be honoured by all parties. Second, that MCESD also provide a forum for bipartite dialogue. Third, that a supportive framework for social dialogue be created. This would involve a number of functions, inter alia the systematic monitoring and evaluating of the practice of bi- and tripartite social dialogue in Malta; conducting research; capacity building among stakeholders; educating the public; enabling civil society to associate and represent itself. It was agreed that all stakeholders have something to contribute to this 'trust-building' endeavour; in fact, not all these functions can be carried out by one single body.

### ***Actors responsible for implementation***

Key stakeholders are the MCESD itself and the various social partners; the Office of the Prime Minister as the person responsible for MCESD; the University; the Department for Employment and Industrial Relations; Parliament; the Employment and Training Corporation; the Department for Women in Society; the Foundation for the Improvement of Living and Working Conditions, among others. Participants agreed that the next step in this project would be the development of a matrix of the various contributions that stakeholders could make to this 'trust-building' project.

### ***Members of the project group***

The Malta tripartite group in Vienna in May 2002 was composed of:

Government representatives: Mr Josef Delia and Mr Frank Pullicino,  
Employer representative: Mr John B. Scicluna,  
Trade union representatives: Mr Mario Cutajar and Ms Romina Bartolo  
Employment and Training Cooperation: Ms Elaine Bonello

The Malta national seminar in Valetta in October 2002 was made up of of 30 high-level tripartite representatives.

Ms Sue Vella, Employment and Training Cooperation, drafted the Maltese summary report. Mr Edward Zammit wrote the Maltese background report and the summary from Vienna. He also presented the programme at the Danish Presidency Conference on 'Tripartism in an Enlarged EU' in Elsinore in October 2002.

### **Development project for Poland: 'Towards a social pact for the young through social dialogue'**

Poland has been a stable political country for the last three years but the economic situation is more problematic. Social partners agree that the main social problems are high unemployment (up to 18%), particularly among the young (up to 40%), and high public deficit (6%).

The population of 20-year olds totalled over 690,000 in the year 2000, over 690,000 in 2001 and 700,000 in 2002, and it will be 720,000 in 2003 and 690 000 in 2004. A considerable number of 20-year olds are still studying at universities or other schools. The educational coefficient of the tertiary education level amounted to 40.7% in the year 2000.

In Poland union density represents 14-18% of the working population. The state plays the leading role in social dialogue. Collective agreements take place mainly at company or local level. The social partners and the state take the view that employment issues should be discussed jointly at

state level and also at regional and local level in order to maintain jobs and fight against youth unemployment.

The social partners and the state share the view that working together and focusing on youth unemployment will require old fixed and locked arguments to be abandoned, at present the subject of a conflict of a symbolic nature.

### ***Objectives of the project***

The social partners jointly believe in the importance of the programme, which would create jobs for young people. As each side possesses some resources, they can support this programme in different ways. With regard to the concept, it is based on the standards formulated in the Amsterdam Treaty. A 'social pact for the young' is needed in the sphere of employment and job creation. The manner in which it will be developed and negotiated by the social partners will offer a basis for setting in motion complex activities aimed at greater social mobilisation of the young.

The programme comprises four pillars of action:

1. a component aimed at creating jobs for graduates;
2. a component aimed at developing occupational training for graduates;
3. a component aimed at creating places of work that the young people can get involved in as self-employment;
4. a component aimed at developing the labour market infrastructure.

Necessary actions will include:

- Holding a national seminar with a broad participation by the social partners on the topic of EMU, its goals and ways in which the Polish economy can come closer to the principles of stable development included in this policy. The seminar would show that the 'Pact for the young' programme can be an element of support to stable economic development, by mobilising the most valuable resources, such as the skilled young labour force and a more authentic social dialogue. It would involve critical discussion of Poland's preparations to join the EMU and the Euro-zone and a debate around the idea of whether the idea currently being implemented in Ireland of devoting an additional 1% of taxes to unemployed youth is worthy of consideration.
- Negotiations relating to the possible input of social partners in the establishment of numerous Youth Job Clubs (YJC) and Youth Entrepreneurship Centres (YEC).
- Founding local advisory bodies comprised of social partner representatives who would develop concepts of cooperation between the YJC and YEC in a given area.
- Determining the input of interested social partners in the functioning of the YJC and YEC.
- Training voluntary workers and professional staff regarding these actions.
- Promoting the idea of the Pact in vocational as well as higher education-level schools, in order to reach young people before they leave school.
- Commencing with the implementation of the programme 'Pact for the young'.



***Actors responsible for implementation***

The 'Social pact for the young' calls for negotiations at different levels of social dialogue. As an initiative, it calls for dialogue at state level because the government will be a serious participant in formulating the principles and financing the programme. The government needs in particular to make estimates, also concerning the long-term benefits of the pact. Social dialogue at the level of *voivodships* (*voivodship* = highest level of administration unit) could become strengthened by the initiative already being taken at the lower level.

Additional actions within the framework of a programme calls for negotiations between trade union and employer associations. They have the human resources and the know-how about the way in which the labour market functions or the way in which to run a company. By combining this stockpile into one body which remains at the disposal of the government, territorial administration, trade unions, employer unions and the non-governmental sector, a synergy effect will be produced in the form of a place where the young person can receive support – in the wide sense of the word – for his/her professional stability.

***Members of the project group***

The Polish tripartite group in Vienna in May 2002 was composed of:

Government representatives: Ms Agnieszka Juzwik and Ms Barbara Skulimowska

Employer representatives: Mr Michal Olszewski and Ms Edyta Doboszynska

Trade union representatives: Ms Barbara Kerek and Ms Sylwia Szczepanska

The Polish national seminar in Warsaw in October 2002 was made up of 12 high-level tripartite representatives.

Ms Wieslawa Kozak drafted the Polish report.

Mr Michel Olszewski presented the programme at the Danish Presidency Conference on 'Tripartism in an Enlarged EU' in Elsinore in October 2002.

**Development project for Slovenia: 'Towards EMU via a social agreement through social dialogue'**

The social partners in Slovenia are aware of the fact that accession to the EU and particularly to EMU signifies both a challenge for achieving better economic performance and a possible risk to the level of social security and overall standard of living of the Slovene people. They realise that successful accession will depend on the contribution to the process made by all actors, namely employees, employers and the government, who must for this reason further enhance their mutual cooperation. Preparing for accession is only one reason why the Slovene social partners have started to negotiate a social agreement with the aim of ensuring a stable economic development and progress in conditions of social peace. They have set as their principal goal the achievement of a sustainable economic and social development.

***Objectives of the project***

The social partners agree that the competitiveness of the Slovenian economy should be based on higher labour productivity, increased knowledge, more investment in human resources development, high levels of employment, fair pay for workers and greater emphasis on occupational health and safety.

That is why in the social agreement they are trying to reach consensus on the following issues:

1. Wages policy

They agree that wages policy should function as an incentive for workers, and at the same time should not jeopardise further investment in development. At national level in Slovenia, the aim in the years to come will be to achieve a pace of wages growth that will be behind labour productivity growth by 1%. At the same time, the aim is to:

- rationalise wage policy in the public sector;
- maintain purchasing power at current levels;
- increase the link between pay and performance.

2. Increasing employment

The partners agree that increasing employment levels must be a priority among all three partners, since the programmes that can be financed from public funds are not sufficient to eliminate unemployment. Through active employment programmes organised at national level and through additionally raising awareness of the need for lifelong learning and investment in development and employee training, among both employers and employees, it will be possible to secure greater growth in employment and increase the employability of individuals. The priority tasks are therefore:

- to educate the workforce, both unemployed and employed;
- to promote lifelong learning

3. Maintaining the achieved level of social security

The partners agree that an active social policy is the appropriate approach to dealing with this problem. They will therefore strive to fulfil the adopted guidelines and implement the widely agreed national social policy, which is orientated towards encouraging and supporting assistance for those who need it, so that to the greatest possible extent they can become actively involved in supporting themselves.

4. Increasing concern for occupational safety and health

The social partners in Slovenia understand the importance of concern for the safety and health of employees, and in the proposed social agreement they also pay special attention to this area.

5. Improving legal security for employees

This is a priority despite the fact that in Slovenia the basic legal conditions already in existence, which enable the implementation and overseeing of such legislation, has to a large extent already secured some improvement in the functioning of the system.

The social partners will contribute towards improving the situation in this area by encouraging their members to change their relations in the immediate workplace and to raise the level of social dialogue at enterprise level.



***Members of the project group***

The Slovenian tripartite group in Vienna in May 2002 was composed of:

Government representative: Ms Metka Stoka-Debevec

Employer representatives: Ms Metka Penko-Natlacen and Mr Zvone Gosar,

Trade union representative: Ms Metka Roksandic.

The Slovenian national seminar in Ljubljana in October 2002 was made up of 35 high-level tripartite representatives.

Mr Miroslav Stanojevic drafted the Slovenian report.

Ms Metka Stoka Debevec presented the programme at the Danish Presidency Conference on 'Tripartism in an Enlarged EU' in Elsinore in October 2002.

# Social dialogue and EMU in Estonia

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The aim of this paper is to give a general overview of the present situation and possible future development of social dialogue in Estonia. The paper is structured as follows: the first section gives a general overview of political development during 1995-2002 in Estonia, and the following two sections describe respectively Estonian economic development and trends in the labour market. The fourth section gives an overview of social partners in Estonia and the final section describes the development of collective bargaining in Estonia.

## **Political situation 1995-2002**

In 1995, Estonia marked four years of independence. The period of singing revolution, monetary reform, nationalist movement, wild market economy and withdrawing Russian troops was over. During these four years, 28 political parties were introduced but mainly only right conservative governments (mainly Pro Patria led by Mart Laar) were formed. Independence was secured but social, rural and national policies were quite underdeveloped. Together with the need to develop towards western values it led to political change at the beginning of 1995. New key issues and priorities in political process were:

- Joining the main international organisations like WTO, EU and NATO;
- Creating peaceful relations with Russia;
- Reforming social security model;
- Ongoing privatisation;
- Creating a balanced party system;
- Judicial and institutional reforms.

### **1995-1999 period**

New, more moderate and left central parties (Coalition Party, Centre Party) gained support in elections. Because of the large number of parties and opposing interests, mainly minority governments were holding office during 1996-1999. Prime ministers were from coalition party and were presenting the so-called 'social market economy model'. On 28 November 1995 Estonia presented its membership application to EU and was chosen for the first wave of membership negotiation, which started in 1998. Closer partnership with NATO started in 1995 by joining PfP planning and review process. Relations with Russia however remained frozen because of Russian new 'near abroad' doctrine and Estonian unwillingness to make compromises in citizenship policy.

### **1999-2002 period**

Centre Party dominated elections; however right-wing parties formed a coalition. New priorities were:

- Promote economic growth;
- Join NATO and the EU;
- Improve administrative capacity and lawmaking;
- Finalize privatisation.

The first cabinet, which was formed by Mart Laar, held office almost 3 years and implemented politically conservative but economically liberal politics. The biggest failure was unsuccessful administrative reform. The second cabinet was formed by Reform Party leader Siim Kallas (former

foreign minister and president of Estonian Bank) in coalition with the Centre Party. With very little in common in political programmes the main purpose of left and right radical coalition was to hold office until next elections in spring 2003. The public support for ruling coalition and elected president Arnold Rüütel (former first Secretary of the Estonian Communist Party) was very high.

## Economic development

Estonia is considered as one of the most advanced emerging markets in Central and Eastern Europe. Owing to rapid economic development, a liberal taxation system and a highly favourable location, the country is at the heart of Europe's fastest-growing market, the Baltic Sea Region, which has a combined population of more than 90 million people. Table 1 presents the main economic key indicators for 1996-2001.

**Table 1 Key indicators of the Estonian economy, 1996-2001**

Key Indicators	1996	1997	1998	1999	2000	2001
Mean annual population (million)	1.47	1.46	1.45	1.44	1.37*	1.36
GDP at current prices (billion EUR)	3.4	4.1	4.7	4.8	5.5	6.1
Real growth of GDP (%)	3.9	10.6	4.7	-0.7	6.9	5.4
GDP per capita at current prices (EUR)	2 300	2 800	3 200	3 339	3 986	4 465
GDP per capita at current prices in PPS**	6 124	7 079	7 518	7 682	8 500	na
Annual FDI (million EUR)	116.0	236.1	515.8	284.3	435.1	597.8
Annual FDI per capita (EUR)	79	161	356	197	310	438
Consumer price index compared to previous year (%)	23.1	11.2	8.2	3.3	4.0	5.8
Unemployment rate*** (%)	10.0	9.7	9.9	12.3	13.7	12.6
Average monthly wage (EUR)	191	228	263	284	312	352 p
Current account balance (% of GDP)	-9.2	-12.1	-9.2	-4.7	-6.4	-6.5
Deficit(-)/Surplus of state budget (% of GDP)	-1.9	2.2	-0.3	-4.6	-0.7	0.4
Export (billion EUR)****	1.600	2.606	2.912	2.758	3.444	3.696
Import (billion EUR)****	2.485	3.940	4.306	3.865	4.614	4.798
Trade balance (billion EUR)****	-0.885	-1.334	-1.393	-1.106	-1.169	-1.101
Total government expenditures (% of GDP)	40.4	37.7	39.7	41.5	36.7	36.2

Notes: \* Based on the 2000 Population Census;

\*\* PPS = Purchasing Power Standard; source: Eurostat,

\*\*\* Unemployed/labour force according to ILO methodology;

\*\*\*\* Trade figures shown in general trade system, p – preliminary; na – not available

Source: Estonian Ministry of Foreign Affairs [http://web-test.vm.ee/eng/kat\\_133/281.html](http://web-test.vm.ee/eng/kat_133/281.html)

## Output decline

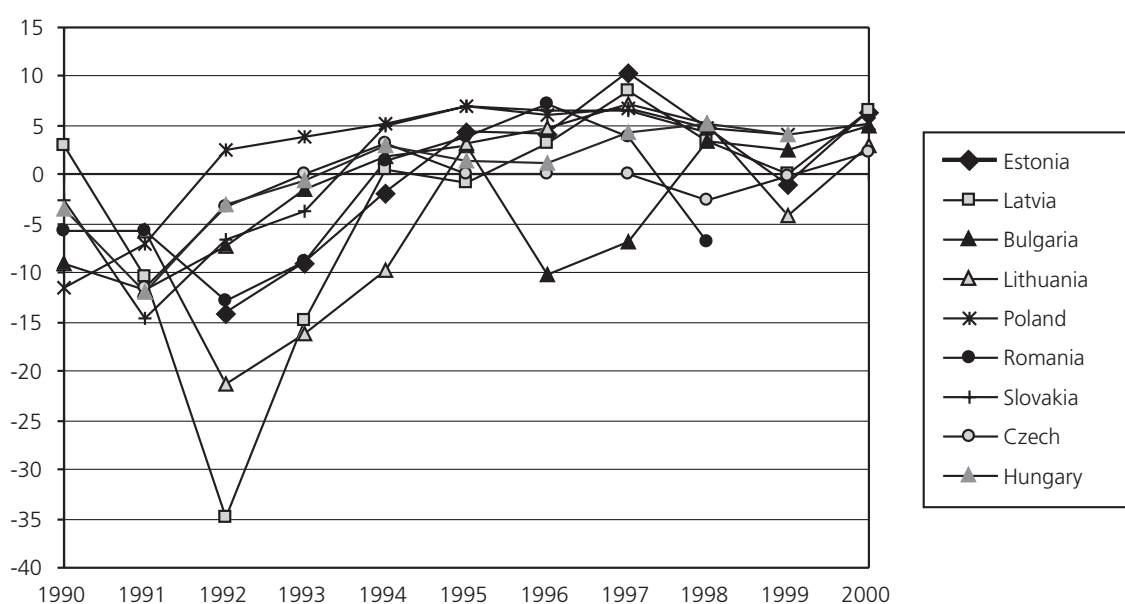
Estonia stabilised its economy in much less favourable conditions than those of most CEE countries and Russia. First, Estonia experienced more trade shocks, due to a high dependence on energy imports and due to relatively lower energy prices which prevailing in the FSU compared to CEE.<sup>1</sup> Second, as a small country, it was more affected by the collapse of trade, which hit all economies in transition (again Russia would have been least affected). Third, in spite of having been relatively reformist and within the FSU, Estonia probably inherited more distorted economy than, say, Poland or Hungary, which had introduced some market elements during the previous decades. Almost the only sense in which the Estonia had better initial conditions was their start

<sup>1</sup> Saavalainen (1995) reports that in 1992, these terms of trade shock were on the order of 10% Estonia, as compared to 3 to 5.5% in Poland, Hungary and Czechoslovakia.

from a position of zero foreign debt, as Russia took over all of the foreign assets and liabilities of the FSU.

Poor starting conditions led Estonia and the other two Baltic states to greater falls in output than in most CEE countries (see Figure 1). The deepest annual decline of GDP was in Latvia (-34.9%), followed by Lithuania (-21.3%) and Estonia (-14.2%) in 1992. In comparison, Poland's GDP decline after one year of reforms (in 1990), was 11.6%. By OECD estimates, all three of the Baltic States had restored growth in 1996, with the higher Estonian rate partly reflecting the fact that it turned around faster.

**Figure 1 Real GDP growth in CEE countries (annual growth rates, %)**



Source: Eamets and Arro, 2000.

A fall in economic output is typical of an early transition period. According to Allen (1992), the main sources of output decline, common to transition economies, are as follows:

1. The implementation of structural changes. The experience of the IMF has shown that deep structural adjustment is almost invariably accompanied by a certain retrenchment in production.
2. The shift from the pattern of holding stocks of input as a precaution against disruptions in supply to holding stocks of output so that customer demand may be met. This is a fundamental part of the process of transition from a supply-constrained to a demand-constrained economy. When it occurs, it inevitably causes output losses as firms run up against the demand barrier for their production.
3. The decline in output has been partly explained as the result of a breakdown of plan discipline. While the planned economy did not work well, its elimination has made the co-ordination of economic activities more difficult. This is a temporary phenomenon.

There are many other possible explanations for economic decline in the transition phase. Some have argued that the magnitude of the decline has been overstated by official statistics, either because their coverage excludes all or part of the growing private sector or simply because, beginning from an initial situation of widespread shortages, standard price and quantity indices generally overstate the drop in output and the increase in the price level associated with price liberalisation. Such explanations do not, however, claim that the decline in output is entirely an artifact of official statistics.

Some economists have viewed the output decline as being related to the price shock that followed economic liberalisation. This demand-side view would argue that the decline in real wages, money, and credit is associated with the inflation depressed domestic absorption and thereby contributed to the decline in output. (Borensztein, Ostry; 1995) Other demand-side effect might include a high real interest rate and a change in foreign trade (collapse of trade relations with CIS countries as in Estonia's case).

A supply-side view would characterise the output decline as a result of the increased input prices (energy, oil). After the price shock Estonia was faced with a new relative price structure and one would expect that, over a period of time, resources would flow towards sectors where relative output prices had risen and away from other sectors. A comparative advantage would imply that, if the country faced world market prices for its inputs and outputs, resources would move towards those sectors where comparative costs were lowest, thereby increasing the value of goods and services. During the transition period, when production factors will be reallocated, structural change might be associated with output decline.

A very high growth rate in 1997 indicates that the Estonian economy has almost fully recovered from previous supply shocks and high growth rate even caused discussion in the local media about overheating of the Estonian economy. According to the data of economic performance in 1998, the growth of GDP slowed down. The main reasons were the financial recession caused by the stock market crash in October 1997 and the crises in the world financial markets. The Russian economic collapse of summer 1998 has also contributed to the slow down of the Estonian economy, this continues throughout 1999. Estonian Statistical Office reported 1.3% of decline of GDP in 1999. This recession caused external macro shocks and showed clearly how vulnerable is the small-scale Estonian open economy to world market influences.

From the second part of 1999, the economy had already started to recover and the recovery continued during 2000. The real GDP growth rate for 2000 was 6.5%. At the same time, labour market indicators did not show any improvement at the beginning of 2000. We believe that one reason for this is on account of technological changes that took place during the restructuring of enterprises affected by the Russian crisis.

### **Inflation**

The Estonian Government and Bank of Estonia closely cooperate with the IMF and the framework of economic reform has been worked out with advisors from the IMF and EBRD. Most open sector prices were liberalised in Estonia in 1991-1992 and the monthly inflation rate declined from 20% in the summer of 1992 to 6.6% in September 1992 and to 1.7% in May 1993. Annual inflation has been brought down from hyperinflation in 1992 (annual rates of 1076% in Estonia) to 11% in 1997.

This is in contrast to the CIS, where inflation remains much higher<sup>2</sup>. In 1998, Estonia reached with its inflation rate to single digit number (8.4%) and according to the Estonian Statistical Office the annual inflation rate in 1999 was only 3.4% and 4% in 2000. Inflation in 2001 was 5.6%.

Relatively high inflation had not much influence on the labour market in the first year of transition, because the currency board system helped to stop hyperinflation rather quickly in 1992. During the currency reform the Estonian currency (*Eesti kroon* – EEK) was undervalued. This gave enough space for price increases in the conditions of fixed exchange rate. The undervaluation of the kroon made Estonian goods competitive in international markets and helped firms to find new markets.

### **Fiscal policy and debt**

The role of fiscal policy became crucial in 1997-1998. By the spring of 1997, current account deficit exceeded 14% of GDP, and the domestic credit growth was over 70%. Under these circumstances, the government made a decision to raise the public savings as much as possible. This brought along a drastic change: in the first quarter of 1997 the general government budget was practically balanced, reaching a surplus of 5% of GDP in the third quarter and more than 2% of GDP in the fourth quarter. The overall annual surplus of over 2% GDP was generated in the second half of the year (Bank of Estonia, 1999). During the period of surplus generating fiscal policy the Stabilisation Reserve Fund abroad served the aim of reducing domestic demand and sustaining foreign investor confidence in economic policy.

In 1999, the budget was based on far too optimistic assumptions, including 6% GDP growth, while actually GDP declined 1.4%. As the result the government budget deficit as the share of GDP was 4.7% in 1999, and Government was forced to cut expenditures during the budget year. In 2000, state budget deficit was 0.7% of GDP which indicates that Estonia is able to keep balanced budget. The balanced budget helps to keep state expenditure under control and Estonia already fulfils Maastricht criteria for those who want to join Economic and Monetary Union (EMU). This gives a lot of credibility to Estonia in the course of accession negotiations. From the other point of view such restrictive fiscal policy does not enable to government to implement long-run policy planning. This is especially important if we consider long-term planning of social policy issues, such as pension reform for example.

Estonia has one big advantage compared with other CEE countries. As mentioned above, Estonia like other Baltic states, did not take over foreign loans of former Soviet Union. That means they started transition period without any foreign debt. Estonian Government has launched very conservative borrowing policy. Total foreign debt of Government is very low (~ 4% of GDP in Dec. 2001). Foreign loans came to Estonia via private sector, mostly through banking sector.

### **Money markets**

Estonia was the first country of the FSU to leave the rouble zone. Currency reform based on the currency board system was introduced in mid 1992<sup>3</sup>. The Estonian kroon was fully guaranteed by the Bank of Estonia's foreign reserves and the Estonian kroon was pegged to the German mark at a rate 1 DEM=8 EEK. From January 1999 EEK is pegged to EUR (1 EUR=15.646 EEK). Because Estonian kroon was under-valuated at the moment of creation, Estonia has managed to keep the exchange rate unchanged during whole transition, despite relatively high inflation. Estonian kroon

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<sup>2</sup> According to EBRD estimates average inflation rates in CIS was 33% (Transition,1997).

<sup>3</sup> For more details about currency board system, see Schuler (1998).



has undergone a significant real appreciation since the start of monetary reforms in June 1992. Measured in US dollars, the level of the CPI had by June 1995 grown 4.5 times and this translates into average annual increases in dollar prices of 65% in Estonia. Yet, in spite of massive real appreciation, exports have expanded rapidly.

Estonia's economy is characterised by the convertibility of the national currency. Estonia has abolished all restrictions on capital movements and foreign exchange accounts.

In Estonia, the Bank of Estonia is responsible for maintaining the Currency Board system. Due to limits on the use of monetary policy instruments the main tools are regulations for commercial banks and the supervision of commercial banks. The Estonian banking system was in crisis at the end of 1992. Banks failed to carry out their creditors' orders. At the end of 1992, the three biggest commercial banks were placed under administration by the Bank of Estonia. Later the biggest commercial bank, Tartu Commercial Bank, was liquidated. After the banking crisis the Bank of Estonia strengthened its supervisory activities and tightened regulations concerning the capital adequacy ratio, banks' minimum capital requirement etc. As a result, these measures, together with general economic developments, helped to strengthen the banking sector. In 1991, there were more than 40 commercial banks; the number declined to 7 by the end of 2001. Crises in the banking sector have finally strengthened and increased the credibility of the Estonian economy. Firms and households have much more trust in financial transactions compared with some other CEE countries, because number of banks has declined and a majority of them consists of commercial banks, which are owned by large Scandinavian banks. A stable financial situation enables households and firms to make more long-term plans and the labour market becomes more stable.

Because of the currency board system, the Bank of Estonia does not have the right to increase money supply without increasing central bank reserves. In the Estonian case, we can see that the crises in financial markets in 1997 caused sharp increases in interest rates. Increase of interest rates has caused a decline of aggregate demand (because both consumption and investments have declined) and also it means that the inflow of foreign capital has slowed down. Money supply has declined as well. Attractiveness of the Estonian economy has decreased. All these factors together have caused a decline in imports, which may balance the trade deficit.

Estonian money markets are, through interest rates, greatly influenced by activities in European financial markets. The trend in the money market interests rates of the kroon that develops Estonian monetary policy environment is on a downward glide path like that of the euro's interest rates since the beginning of 2001. 3-month aggregate interest rate – Talibor - was 4,25% and 6-month Talibor was 4,5% in December 2001.

## **Labour market developments**

### **General trends in labour market during 1989-2001**

As in most other transition economies of Eastern Europe, the size of the population in Estonia fell rather sharply in the early 1990s, and it continued to decline in the late 1990s, but more moderately. The decline reflects both negative natural increase of population and negative net migration. At the same time, the Estonian population aged quite substantially over the whole last decade, with a particularly large drop in the percentage of people younger than 15-years old.

Political, economic and social reforms have completely reshaped the labour markets of all the transition countries. The immediate reaction to economic uncertainty was a sharp decline in

demand for labour. External shocks as the break-up of the USSR and the collapse of the common market of the former Eastern block occurred during the same period as internal shocks caused by economic reform and stabilization programmes. This combination resulted in sharp production losses and pulled economy into a dragging transition crises. Following the pattern in most other East-European economies, the activity rate (labour force participation rate) declined sharply. There are some differences in variation in labour force participation and employment rates across gender and age groups. In Estonia, the decline in participation was greatest for the age groups 15-19, 35-39 and 45-49 years old, while the oldest groups of 60-64 and 65+ increase their participation (this increase was equal for men and women aged 60-64, but it consisted entirely of women in the 65+ age group). In recent years, the Estonian labour market has experienced several serious shifts. Mainly due to the economic crises in Russia, the number of the employed fell significantly, by more than 27 thousand people in 1999. The trend continued also in 2000, although to a lesser degree. Simultaneously, unemployment started to increase, peaking in the 1<sup>st</sup> quarter of 2000, when the unemployment rate in the age group 15-74 reached a record high of 14.8% (96,7 thousand people). The number of inactive people exceeded 336 thousand in the 1<sup>st</sup> quarter of 1999 for the first time, and has decreased thereafter. There was an improvement in labour market in 2001 and this is continuing also in 2002. The dynamics of main labour market indicators are presented in Table 2.

**Table 2 Population aged 15-69 by economic status, 1989-2000 (annual average, thousands)**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total population (15-69)	1096.4	1102.3	1104.0	1095.3	1067.0	1044.8	1025.9	1011.9	1000.5	993.6	987.7	986.0	985.3
Labour force	842.6	831.7	819.8	790.5	748.0	730.9	701.4	687.7	678.8	668.6	655.8	658.2	655.2
Employed	837.9	826.4	807.8	761.4	698.9	675.4	633.4	619.3	613.0	602.5	575.3	568.3	572.2
Participation rate (%)	76.9	75.5	74.3	72.2	70.1	70.0	68.4	68.0	67.8	67.3	66.4	66.8	66.5
Employment rate (%)	76.4	75.0	73.2	69.5	65.5	64.6	61.7	61.2	61.3	60.6	58.2	57.6	58.1
Unemployed	(4.7)	5.3	12.0	29.2	49.1	55.5	68.1	68.4	65.8	66.1	80.5	89.9	83.0
Unemployment rate (%)	(0.6)	0.6	1.5	3.7	6.6	7.6	9.7	9.9	9.7	9.9	12.3	13.7	12.7
Inactive	253.8	270.5	284.2	304.8	318.9	313.9	324.5	324.2	321.7	325.0	331.9	327.8	330.1

Note: ( ) data is based on 20-39 persons of the sample.

Source: ELFS data, Statistical Office of Estonia.

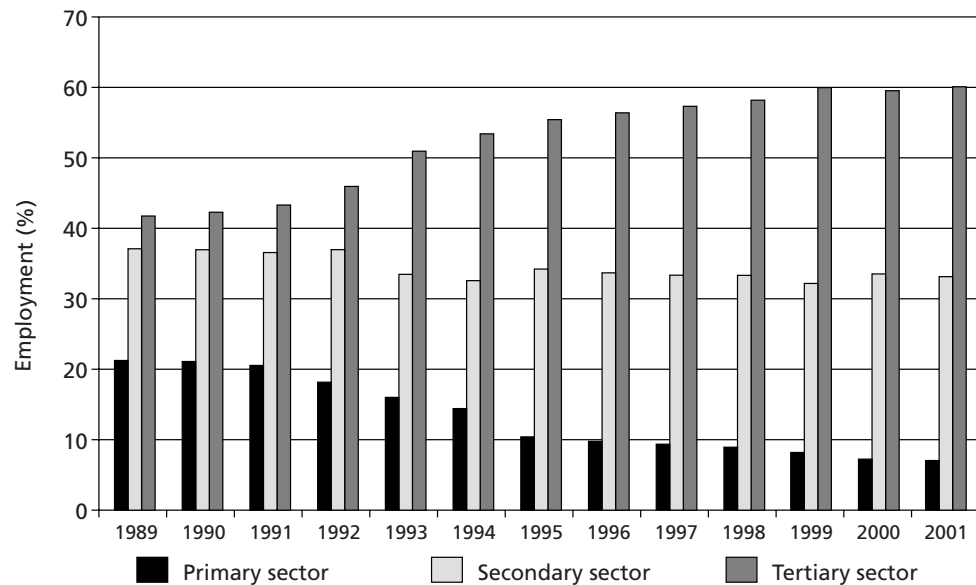
The employment rate among 15-69 years old that had remained stable at 61% in 1995-1998 fell to 58% in 2001. The decrease affected both men and women. Employment rate among men fell to 62.8% and among women to 53.8%. In the second half of 2000 some positive tendencies could be observed though; the employment rate and labour force participation increased and the number of the unemployed and inactive people decreased slightly as compared to the beginning of the year. Despite economic growth in 2000, the number of employed people dropped by approximately 1% compared to 1999, and unemployment grew by 12%. The main reason for lower employment lies in the increase of productivity from corporate restructuring and switchover to capital-intensive production.

The transition process brought fundamental changes to the composition of employment by sectors and by branches. Most dramatic decline of agricultural employment took place in Estonia, when compared with other transition countries. Total employment in agriculture dropped from 140



thousand in 1989 to nearly 40 thousand in 2001. A decline in the range of 70% is a very serious one and as a result we can observe the increasing long-term unemployment in many rural areas in Estonia. Compared with other transition economies, industrial employment has declined relatively little in Estonia and its share is still above 30%. The service sector has grown strongly – the share increased from 46% to 60% during these years (see Figure 2).

**Figure 2 Employed persons by sector of economy, 1989-2001**



Regardless of the increase in the number of employed over the last two years (from 568.3 thousand in 2000 to 572.2 thousand in 2001), the number of economically active people i.e. people in work force, has decreased. It was brought about by the decrease of unemployment from the previously employed but also by the increase of inactive people (mainly women), who due to changes in the legislation registered themselves in employment offices. This is the reason for the higher unemployment rise among women, although the unemployment rate of men still remains higher, 13.0 and 12.3 respectively. Compared to the average unemployment rate in the EU (8.1%), the unemployment rate in Estonia is considerably higher.

Unemployment in Estonia has been steadily increasing over the last years, and in spite of positive economic growth in 2000, unemployment rate reached the all time high of 13.7 percent (the respective figure in 2001 was 12.7%). Unemployment growth has been especially rapid among young people, and the number of people who have been out of work for more than one year has risen (see Annex 2). The unemployment rate among the young (15-24 years) is higher than the unemployment rate in other age groups. The cause for concern is the share of young people who neither study nor work. Unemployment among the young in Estonia has been continuously growing. In 2000, 6000 new young unemployed registered in employment offices and by the end of the year the total number of the young unemployed reached two thousand. In 2001, the unemployment rate of the young was recorded at 22.2%, the corresponding figure in the EU being

16.7%. In 2001, when the number of the unemployed reached 83.0 thousand, the share of the long-term unemployed formed 48.3% of the unemployed (40.1 thousand). Although the share of the long-term unemployed fell to a certain degree, in absolute figures it has continued to grow and compared to 1995, the growth has been 90%. When we add to the number of the unemployed the approximately 22.3 thousand discouraged people, who want to work but have given up any hope of finding a job, then the number of the people without work but willing to work amounts over 105 thousand.

Frequently the main impediment in finding a job is an inadequate command of the Estonian language. In 2001, the unemployment among Estonians was 10.5%, among non-Estonians 16.9%. This is also reflected in regional unemployment statistics. The highest unemployment rate has always been in northeast Estonia. The unemployment rate varies from county to county, the difference sometimes being over two times.

In spite of high unemployment rate, there is a severe shortage of skilled labour in Estonia, an indication of structural unemployment. Although the level of education obtained years ago may be high, it does not necessarily match the needs of the present-day labour market. Still, people with higher educational background are more flexible – they find it easier to adapt to the progress, upgrade their professional knowledge or learn new skills. Thus, the share of highly educated people among the unemployed is lower. According to the findings of a labour survey, the unemployment rate among people with basic education is only 16.8% whereas corresponding figure among people with higher education is 8.6%.

The number of the unemployed registered in employment offices has increased steeply, exceeding 50 000 in November 2000, and peaking at 58 852 in March 2001. In July 2002, the corresponding figure was 45 233. Registered unemployment in reality, as compared to the unemployment statistics revealed by labour surveys, has always been twice as low, the reason being low motivation to register. Increase in the number of the registered unemployed at the end of 2000 can be accounted for by the Employment Service Act, enforced as of October 1, according to which the registered jobseekers are to be regarded as the unemployed and are entitled to a range of employment services. Hence, lot of the previously unregistered unemployed have taken advantage of the opportunity.

In July 2002, the total number of people seeking assistance from state employment offices was 45 thousand, of them 5.3 thousand new-entrances. Unemployment benefit received 21.8 thousand unemployed persons and 227 unemployed (0.5% of the total number of the registered unemployed) received training. Employers receiving support (subsidy) from employment offices employed 7 unemployed and business start-up subsidies were granted to 13 unemployed. The mentioned numbers are inconsiderable, but the limited financial resources do not enable a more active labour market policy implementation. Only a few vacancies limit the number of jobs offered by the employment offices. In July 2002, only 1191 vacancies were registered in employment offices. The number of placements was 1790, i.e. many manage to find a job on their own. However, most of the unemployed are in need of retraining or additional training since the education and skills of the unemployed may not match the requirements.

Summing up, the main problems on Estonian labour market are the following:

- High unemployment rate – 12.6% in 2001 in the age group 15-74;
- High unemployment rate among the young – 22.2% in 2001 in the age group of 16-24;
- High share of the long-term unemployed among the unemployed – in 2001 48.3%;
- Mismatching of demand and supply (structural unemployment);
- Low administrative capacity of labour market institutions;
- Low financing of labour market policies (0.34% of GDP);
- Active measures targeting a relatively small number of the unemployed;
- Large regional differences.

Compared to the EU member countries, unemployment rate in Estonia is nearly twice as high and one of the highest among candidate countries. While the EU spends 3-4% of GDP on implementation of their employment policies, in Estonia the corresponding figure is only 0.34%, being also the lowest among candidate countries. To decrease unemployment it is also crucial to encourage entrepreneurship and new job creation.

### Labour market policy in Estonia

The governing labour market institution in Estonia is the Ministry of Social Affairs. The Labour Market Board (established in April 1991) works under the jurisdiction of the Ministry of Social Affairs. Its main tasks are:

- To administer labour mediation services bringing together employees and employers;
- To administer vocational planning and counselling services which help the labour force adjust to the structural changes taking place in the national economy;
- To co-ordinate advanced training and retraining programmes designed to enhance and develop the labour potential of the population;
- To organise unemployment registration, regulate the payment of benefits to the unemployed and supervise the entire process.

To enhance the administrative capacity in the area of employment, the position of vice-chancellor was created at the Ministry of Social Affairs in 1999. In 2000, labour market department was established and the Labour Market Board was restructured.

Preparation of development plans:

- In cooperation between the Ministry of Social Affairs of Estonia and the European Commission, an overview of the Estonian labour market policy: *Employment Policy Review with Estonia, Joint Assessment Paper* was prepared in 2000. The objective of the paper was to review the preparedness of the labour market system to implement the EU Employment Strategy. The current labour market situation is evaluated and the main problems and measures to solve them are highlighted.
- In October 2000, the Government endorsed the *Employment Action Plan of the Republic of Estonia for 2000 4<sup>th</sup> Quarter – 2001*, which was prepared in cooperation between the ministries, social partners and other institutions.
- The *Employment Action Plan 2002 of the Republic of Estonia* reflects the official labour market policy and has been developed in compliance with the employment strategy of the EU and is based its on four main pillars.

Estonian labour policy is very restrictive compared those in CEEC and in EU. Labour policies are rather insufficiently funded; the expenditures on labour market measure policies account for 0.34% of GDP in Estonia in 2001. This is a very small fraction compared to the respective average rate of 3.4% in the EU. Labour market policies have so far concentrated on rather passive activities in Estonia, mainly registering jobseekers and unemployed persons and paying benefits to them. Programmes designed to reduce unemployment, e.g. retraining, identifying the need for new specialities and occupations; job creation policies; etc. do not often meet society's needs yet.

**Table 3 Expenditures on labour market policies in Estonia, 1995-2001**

	1995	1996	1997	1998	1999	2000	2001
Total expenditures (mil. EEK, without taxes)	67.5	87.7	105.9	114.6	184.3	185.5	208.5
% of GDP	0.17	0.17	0.16	0.16	0.24	0.22	0.22
<b>Share of expenditures (%)</b>							
Public employment services and administration	18.9	15.5	14.5	16.5	9.0	9.6	10.0
Passive employment policy (unemployment benefits)	40.5	44.8	47.3	49.9	65.3	63.8	61.5
Active employment policy	40.5	39.7	38.3	33.5	25.7	26.6	28.0
<i>Labour market training</i>	26.0	26.3	26.4	24.2	17.4	17.5	20.5
<i>Training allowances</i>	7.0	5.7	5.1	3.6	3.3	3.5	3.7
<i>Subsidy to employer</i>	0.5	0.9	0.9	0.9	1.0	1.2	1.7
<i>Subsidy to start a business</i>	5.4	4.3	3.7	3.2	2.3	2.6	2.2
<i>Community placement</i>	1.6	2.5	2.2	1.6	1.8	1.8	-

Source: Estonian Labour Market Board

In Estonia, more than 60% of the overall employment policy budget is allocated on passive measures. At the same time, the overall coverage of the unemployed by the system of income maintenance is still low. The rate of unemployment benefit is currently so small in Estonia that a person who has lost their job has to apply for subsistence benefit as well. Thus the unemployment benefit fails to fulfil its function in smoothing consumption during the unemployment period of the household members. The new unemployment insurance system eliminates the need for people eligible to unemployment insurance benefit to apply additionally to subsistence benefit but it does not change the situation for people receiving state unemployment assistance. The replacement rate is low in Estonia: it is 27% for a couple without children, 33% for a single person and 39% for a couple with two children and 48% for a single parent with two children. On the other hand, it appears that in various cases it is more beneficial to live on benefits than start working for a minimum wage. The duration of the subsistence benefit is not limited. It is stated to decrease the motivation to search for work more than benefits with higher level but with certain termination date practiced by other countries. It is notwithstanding that at the same time when most of the EU countries tighten up on eligibility conditions for receipt of benefits, in Estonia the criteria have been relaxed. In order to decrease the negative effects of the benefit system on work incentives, it is proposed by different experts to make the eligibility criteria for unemployment benefits stricter and place stronger emphasis on the elements that would encourage people to search for work. (Kuddo et al, 2001).

The share of active measures is relatively low, both either to consider the expenditures or participation rates. The participation of registered jobseekers in active labour market measures is

low too. In 2001, only 8.2% of registered jobseekers participated in active labour market measures. In accordance with the European Union employment guidelines, the goal is to achieve the involvement rate of 20% unemployed. An increased role for active labour market policies is therefore an important priority of the Estonian labour market policy. The Employment Action Plan 2002 includes a number of new initiatives with the aim to tackle the long-term unemployment (See Annex 2).

Labour policies are connected with state regional policies such as promoting entrepreneurship in regions with high unemployment rates and in other ways stimulating job creation. This is even more important for Estonia, because during transition the regional differences (incl. unemployment) have increased drastically. The situation would be improved by differentiating labour market policies by regions, active labour market policies and several measures to develop the system of adult training and retraining programmes for people who may face layoff due to enterprise reorganization. The main aim is to reduce the mismatch of skills and youth unemployment, improve territorial mobility of labour resources, reduce the duration of unemployment, stop the increase of poverty among the unemployed.

According to recent evaluations, one of the main problems is poor targeting of the programmes. Given the limited resources available, it will be important to ensure that these programmes remain targeted on the most disadvantaged jobseekers and regions and that their impact is closely monitored. One specific example is aid to starting business. Experience elsewhere suggests that this form of subsidy appears to be successful but only for a small group of unemployed individuals. Currently, there are different support structures implementing this kind of measures in Estonia. In addition to Labour Market Board, the business support structures under the governance of the Ministry of Economic Affairs offer start-up aid for beginning entrepreneurs. There is a need for closer inter-ministerial coordination in this field as well as for more efficient combining of the subsidy with relevant training and consultancy. (Paas et al, 2002)

This situation will hinder seriously the Estonian integration to EU. Estonia needs more generous unemployment benefits system: both unemployment benefit and benefits duration should be increased. It could be concluded that because of the under-capitalisation of the labour market policy, the unemployment benefits are low and in this way do not decrease remarkably the labour market flexibility. On the other hand, through placing stronger emphasis on active labour market programmes, the positive impact of labour policy on labour flexibility could be increased. In this context, more attention should be paid to education and training, including development of lifelong learning, which is now an established priority throughout the EU.

## **Social partners**

### **Trade unions**

There are two central trade union organisations (also internationally accepted) in Estonia: the Association of Estonian Trade Unions (EAKL – established in 1990) and the Estonian Professional Employees' Unions Association (TALO – established in 1992). The EAKL is the member of ICFTU and both have observer's status in ETUC.

The EAKL, so called trade union of blue-collars, is the largest organisation: it embraces 24 branch unions with approximately 58 000 members. Five branch unions have joined EAKL during the last

five years, but at the same time overall membership (members of the unions) has decreased about a half. Since 1995, EAKL has created 5 regional branches and this is considered an important field of action in the future also.

TALO is the organisation of trade unions of white-collar employers. TALO embraces 9 branch unions and one co-operative association with approximately 40 000 members.

**Table 4 Trade union membership and participation rate**

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Labour force	727,7	717,0	694,0	686,8	679,8	668,9	673,9	666,0	660,2	662,2
EAKL (members)	699,6	609,9	341,8	200,0	139,2	119,3	68,6	65,1	65,3	57,9
TALO (members)	–	60,0	55,0	50,0	47,0	45,0	40,0	40,0	40,0	40,0
TOTAL	699,6	669,9	396,8	250,2	186,2	164,3	108,6	105,1	105,3	97,9
Participation rate (%)	96,1	93,4	57,2	36,4	27,4	24,6	16,1	15,8	15,9	14,8

Sources: EAKL; TALO, Statistical Office of Estonia.

The main obstacle to the development of trade unions and collective bargaining is the overall negative attitude towards trade unions. The unions are unpopular among both employers and employees. The unpopularity of trade unions among the employers is not difficult to understand. The worker-side low initiative has several reasons:

- One of the main reasons is the shortcoming of the legal background that supports poorly industrial democracy. Estonia has no legislation on co-determination, but in Estonia where the industrial relations are often employer-dominated, a strict legislation side prescription for participation organ is necessary to improve the situation of industrial democracy.
- The low level of activity of labour organisations is also the result of the relatively bad financial state of trade unions.
- The overall decrease of the active labour and increase of the unemployment have also caused the decrease in membership. There are some almost union-free fields (construction, banking, services, and small entrepreneurship).

In conclusion, negative and positive sides of trade union activity are as follows:

#### *Negative*

- Membership is very low. There is a declining trend.
- Qualifications of staff need to be improved.
- Financial problems.
- Negotiating power is not very high (low coverage rate, high unemployment)
- Regional representation is low.
- Society is not informed about trade union activity.

#### *Positive*

- Future prospects of development are good (influence of Scandinavian countries).
- Influence of EU (ETUC, sister organisations); international contacts (mostly training).
- In some industries trade unions are very successful, positive experience should be shared.



- Register of collective agreements was created.
- Trade unions become more visible in society.

### **Employers' organisations**

On November 1991, associations of industrial branches formed the Estonian Confederation of Industry (ETKEL), which in the following year started to function as the representative of employers in social partnership. On May 1995, the organisation of employers ETKEL was reorganised into the Estonian Confederation of Industry and Employers (ETTK). As a result of the reorganisation and with the objective to protect the common interests of employers, the largest organisations and associations of infrastructure, such as the Association of Car Enterprises, Association of Ship Owners, Estonian Railways, Estonian Energy and Confederation of Agricultural Producers also joined the ETTK. On November 1995, the associations of economic branches of the service sphere formed the second Estonian confederation of employers – the Estonian Confederation of Employers Organisation (ETÜKL). Both the ETTK and the ETÜKL acknowledged each other as independent associations of employers, engaged in constructive cooperation and participated together in negotiations with social partners (Estonian Employers' Confederation, 2002). Today, there is one federal organisation of employers – the Federation of Estonian Employers and Industry (ETTK), founded in 1997 by the merger of the Estonian Confederation of Employers' Organisations and the Confederation of Estonian Industry and Employers. Since March 1998 the ETTK is a member of the International Organisation of Employers (IOE). In July 1999, the ETTK was granted the status of an observing member of the Union of Industrial and Employers' Confederations of Europe (UNICE).

On October 1999, the Council of the ETTK Virumaa Department was formed and its objective is to unify and organise the activities of the employers in the Virumaa region in order to facilitate the achievement of the ETTK objectives in East Estonia. The areas of activity of the Virumaa Department are counselling local governments and regional government bodies in enterprising, vocational training, environmental protection, power engineering and investments and mediation of the principles of participation democracy and social partnership (Estonian Employers' Confederation, 2002).

The ETTK's membership embraces 32 branch associations of employers, 4 associated member associations and 22 commercial undertakings. This means that ETTK brings together approximately 6 000 enterprises with more than 200 000 employees. In the programme of the ETTK for 2001 – 2003 are stated the following objectives:

- To conclude a wide social partnership agreement: specification of the interests of entrepreneurs in the long term development of society and its manifestation in a wide social partnership agreement, promotion of social dialogue with the representative organisations of the employees with the objective to establish bipartite relations instead of tripartite relations, an active introduction of the principles of social partnership to the society.
- All the legislation concerning employers and entrepreneurs will be elaborated in cooperation with economic branch unions: to extend the cooperation memorandum between the Government and entrepreneurial organisation to the level of ministries and branch unions so that the branch unions would be more efficiently drawn in to the elaboration of the legal acts managing the sphere of activity, to monitor the process of legislation and to arrange more effective exchange of this information, to forward standpoints and to stand for them in all the

legal issues concerning the members of the ETTK, to create a cooperation network with research and scientific institutions with the intention to protect the interests of the members more effectively in the process of legislation, to introduce continuously the legislation regulating the line of the ETTK with the training of the members, to develop the service of legal consultations.

- The members of the ETTK will provide work for at least 200 000 employees: to increase the influence of the ETTK in society by means of active participation in the social process and institutions concerning employers, to keep the existing members more happy by way of added exchange of information and protection of the principles of the members, to establish an essential criteria of representativeness for the new members and to develop a united attractive participation system for the new members, to elaborate a functional strategy of publicity for the new members, to organise training on the operation of branch unions and methods of their reinforcement.

### **Tripartite consultative organisations**

Besides bilateral and tripartite negotiations the co-operation between social partners takes place also in tripartite councils and other consultative organisations. The main institutions concerning tripartite negotiations established by the government (the Ministry of Social Affairs is responsible also for labour relations) in Estonia are the Estonian ILO Council and Social-Economic Council. Both of them consist of the representatives of the government, employers and employees. Social-Economic Council is the forum for social partners for consulting the government in the issues of social-economic processes and relations. Estonian ILO Council is a consultative organ established to help to improve the legislation and to develop tripartite negotiations.

Other consultative organisations are the Medical Insurance Council, Labour Participation Councils, Vocational Councils, Labour Dispute Commissions, The Work Environment Council, etc.

Including social partners in solving employment problems is vital. An agreement between the government, employers and trade unions was signed in August 1999 to create tripartite employment councils in counties at employment offices. Employment council has an advisory function the aim of which is to advise the local employment offices in planning and implementing employment measures. The objective is to increase efficiency of public employment offices in solving regional problems, utilising local initiative. So far, five employment councils have been formed.

Social partners have also been involved in implementing the vocational reform. In December 2000, Ministers of Education, Economic Affairs and Social Affairs and representatives of employers' and employees' organisations and Chamber of Commerce and Industry signed the co-operation agreement for the years 2001-2004. The objective is to guarantee qualified workforce and its importance to labour market demands.

### **Collective bargaining**

Most European countries have a two-channel model of collective bargaining: the relationship between workers and employer are arranged through trade unions and workers committees. In Estonia the one-channel model is used. The absence of workers' committees is explained by the early stage of labour democracy and low initiative of workers but also by the expensiveness of the two-channel model.



Until now, the collective bargaining system in Estonia has developed quite poorly in all levels (i.e. enterprise, branch and state level). There are deficiencies in legal regulation, but the main problem is overall negative attitude towards the trade unions and collective bargaining. This is a throwback to the soviet system. Thus, the development of legal regulations plays a very important role in redefining the goals of trade unions and in establishing the framework for collective bargaining.

### **Collective bargaining at enterprise, branch and regional level**

The number of collective agreements concluded in Estonia is quite small and employers have seldom been forced by means of actions (strikes, etc) to conclude collective agreements. This has happened partly because of the weak organisation of workers, partly due to the inability to understand the refusal to conclude a collective agreement as a labour dispute.

- The number of collective agreements on the enterprise level exceeds 570 in year 2000. It is a very small number if to take into account that there are roughly 70 000 all kinds of business entities. If the agreement does not state otherwise, the collective agreement extends to the members of the workers' organisation that concluded the agreement. In practice, the agreements are generally extended to all workers in the enterprise (not only to the members of the unions). The number of workers embraced with those agreements was approximately 99 000 (94% of union members). So the coverage rate in total was very low.
- Collective agreements at branch level are concluded in 13 branch unions in 2000 of EAKL (in 1999 were 11). The number of trade union members embraced by branch level collective agreements is 17 400 (decreased compared to 1999 – 22 500) and employees is 36 000 (in 1999 – 47 700). The branch level agreements are generally concluded with state owned or formerly state owned enterprises. The main topic of branch level agreements is the same as in enterprise level agreements – the work remuneration. The issues of safety and compensation in case of work accident are also emphasised in some branch level agreements. There are more collective agreements signed in transport sector, engineering sector, food industry, wood industry, textile and clothing industry, chemical industry, etc. In some branches (manufacturing, sailors' trade unions, fisheries trade unions) there is no branch organisation of employers' and no agreement can be concluded. The emphasis is in such branches wholly on enterprise level collective negotiations. Only three branch unions of TALO have concluded the collective agreement.
- EAKL has established 5 regional branches and besides that have got branch unions in their own regional departments. At the same time, there are no regional organisations of employers, except Ida-Viru region. Thus regional collective bargaining is possible only in one region and collective agreement is not the issue in regional level. Ida-Virumaa<sup>4</sup> regional branch of EAKL is the only regional level union that has reached the regional agreement with ETTK and local authorities. The agreement concerns employment and unemployment but is in the form of declaration and does not obligate anybody to anything and thus it is not a collective agreement. For example, the agreement states that the parties will take steps to improve the employment in Ida-Virumaa. However, it does not declare what kind of steps will be taken.

### **Protection of workers' interests and rights at state level**

Tripartite consultations, information exchanges and negotiations are held in Estonia between the government of the state and the delegations of the employers and employees. There are six

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<sup>4</sup> Ida-Virumaa is the region with a large Russian population and trade unions are more developed there.

members in all three commissions. The employers are represented in the negotiations by the commission formed of the management of the ETTK. Employees' organisations EAKL and TALO have some tripartite and bilateral negotiations in the state level together and some separately. As EAKL is bigger organisation it has more importance in the state level collective bargaining. The results of activities of the EAKL are described firstly, and then the activities of TALO are discussed.

The tripartite negotiations started in 1992, when the first tripartite agreement concerning social securities was concluded. The process of tripartite negotiations is managed by the Regulation of Tripartite Consultations ratified in 1996, which states that the schedule of the following consultations is settled on the previous consultation and the decisions are made on the principle of consensus. The tripartite agreements and consultations concern the rate of tax-free income, unemployment compensation, social security, vocational education, etc. Every year the national minimum wage is agreed upon during tripartite negotiations.

The main contribution to the protection of employees' interests in state level by the trade union organisations is made through the consultation and co-operation in elaboration of legal acts concerning labour and social guarantees. A tripartite agreement is concluded that legal acts concerning employees are sent to trade union associations as well as employers' association for consultation. EAKL has made its contribution to the elaboration of national old-age pension insurance, health insurance, social tax and other acts. The tripartite agreements have gained more and more importance from year to year. Since 1992, there have concluded altogether 14 tripartite agreements in the state level (Sept. 2001). These concentrate mainly on people's income. The subjects that have been touched in tripartite negotiations in which EAKL was one of the parties were following: minimum wage, tax-free income, participation democracy, unemployment benefits and employment councils.

The first tripartite agreement was concluded in 1992 and it concerned mainly minimum wage. Since then, minimum wage has been one of the most important topics of tripartite negotiations. The minimum wage has raised both in absolute and relative terms (see Table 5), but it is still low compared to the average wage.

**Table 5 Minimum and average wage per month, 1994-2001**

Effective date of the minimum wage	Minimum wage in month (EEK)	Average nominal monthly wage before taxes (EEK)	Share (%)
01.09.1994	450	1734	26.0
01.01.1996	680	2985	22.8
01.02.1997	845	3573	23.6
01.01.1998	1100	4125	26.7
01.01.1999	1250	4418	28.3
01.01.2000	1400	4907	28.5
01.01.2001	1600	5511	29.0
01.01.2002	1850		

Source: Estonian Statistical Office.

EAKL has the objective to raise unemployment benefits to at least 50% of minimum wage. Today these are only 25% (400 EEK per month) (see Table 6). The negotiations over unemployment benefits have not been as successful as have been the minimum wage negotiations.

**Table 6 Unemployment benefits, 1992-2002**

Effective date for unemployment benefits	Unemployment benefits (EEK)	The ratio of unemployment benefit to minimum wage (%)
01.10.1992	180	60.0
01.07.1996	240	35.3
01.03.1998	300	27.3
01.01.1999	400	32.0
2000	400	28.6
2001	400	25.0
2002	400	21.6

Source: Estonian Statistical Office.

The negotiations of TALO have differences when compared with EAKL. Main topic is also the wage but differences lie in the level of aggregation. EAKL negotiates over the concrete numbers of minimal wage or minimum living standard i.e. over the benefits that are directly available to the receiver of the benefit. TALO negotiates over the wage fund. Thus, the precise wage numbers for workers are not the issues of collective bargaining on state level. Due to some negative experiences (e.g. the increase in wage fund resulted mainly in the increase of the wages of school directors and did not affect the wage of teachers) TALO is about to change this policy but no serious action has been taken yet.

### **Bilateral negotiations**

In Estonia the bilateral negotiations are held between employers' and employees' central organisations as well as between the government and the unions and between the government and entrepreneurial organisations.

On the bilateral consultations of the employers and employees shared principles and standpoints from the spheres of social partnership, industrial policy and social security have been confirmed. One of these agreements, signed on March 1999 by the ETTK and EAKL was a shared project 'The development of the Social Dialogue in Estonia'. The project depicts the priorities of the social dialogue enlargement, preconditions for development and social dialogue for creating new jobs.

Several questions concerning economic policy – priorities of Estonian economic growth, the industrial policy, tax policy affecting entrepreneurship, etc. – have been discussed between the government and entrepreneurs.

Summing up, the social dialogue is undergoing a development in Estonia. Social partners' organisations are quite young institutions – during the last decade, employers' organisations and employees representative organisations have been established. Tripartism is satisfactorily developed at national level: tripartite negotiations and consultations are regularly taking place, the range of issues that are regularly discussed with employees, the Government and employers have identified. Social dialogue on the sectoral and company level is notably less developed. Collective agreements on wages and working conditions are being negotiated only in a limited number of economic sectors and companies. In the near future it is important to focus more on developing social dialogue at sectoral and company level. It is also necessary to expand the range of issues for negotiations beyond wages and working conditions.

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# Annex 1

## Employment Action Plan<sup>5</sup>

To alleviate the situation and enhance the efficiency of labour market policies, the current Employment Action Plan has been devised.<sup>6</sup> Compared to the EU member countries, unemployment rate in Estonia is nearly twice as high and one of the highest among candidate countries. While the EU spends 3-4% of GDP on implementation of their employment policies, in Estonia the corresponding figure is only 0,24%. Due to limited financial resources, special attention will be paid to risk groups whose competitiveness in the labour market is the lowest. The target groups in the present action plan are the youth, the long-term unemployed and the disabled. In 2000, when the number of unemployed reached 96.5 thousand, the share of the long-term unemployed formed 44% of the unemployed i.e. 43 thousand. Although the share of the long-term unemployed fell to a certain degree, in absolute figures it has continued to grow and compared to 1995 the growth has been 90%. When we add to the number of the unemployed the approximately 24 thousand discouraged people who want to work but have given up any hope of finding a job, then the number of the people without work but willing to work amounts to over 120 thousand. In 2000, 6000 new young unemployed registered in employment offices and by the end of the year the total number of the young unemployed reached 25 thousand. In 4<sup>th</sup> quarter of 2000 the unemployment rate of the young was recorded 26.4%, the corresponding figure in the EU being 16.7%.

Decrease in the employment rate and the rapid growth of the unemployment accelerated after 1997, when Estonian economy experienced severe setbacks. Since then the increase in the employment rate has been the key issue in Estonia. In solving the problem, several areas, coordinated on the state level, are involved – such as education, economics and labour market policy. To attain the best results, all the changes in one area have to be coordinated with other parties and there has to be a common objective. The following guidelines are worked out:

1. Tackling youth unemployment and preventing long-term unemployment. One of the priorities of the employment policy is to increase the share of all active employment measures pursuant to the needs of the risk groups and labour market. As the situation on the labour market has become tenser, risk groups need a more tailored approach. For that purpose it is necessary to adjust available employment measures (training, vocational counselling, employment subsidies to employers and the unemployed, community placement) and increase their volume. To achieve this, additional funding is being applied for from the state budget for 2002. To assist long-term unemployed without special skills or work experience in finding employment, a new employment measure – work practice – will be developed and piloted. The aim of work practice is to provide the unemployed an opportunity to obtain work experience and work habit and acquire some simpler skills.
2. A more employment-friendly approach: benefits, taxes and training systems. The current tax system comprises a number of benefits and breaks enhancing the development of employment.
3. Developing a policy for active ageing. In September 1999, Government approved the following document “The basis for policy concerning the elderly in Estonia”, which states the following principles:

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<sup>5</sup> The full text of the Employment Action Plan can be find in webpage of the Ministry of Social Affairs: [www.sm.ee/gopro30/Web/gpweb.nsf/pages/Social](http://www.sm.ee/gopro30/Web/gpweb.nsf/pages/Social).

<sup>6</sup> The Action Plan has been prepared in co-operation between Ministry of Social Affairs, the Labour Market Board, the Ministry of Education, the Ministry of Agriculture, the Estonian Chamber of Disabled People, the Estonian Confederation of Trade Unions and the Estonian Confederation of Employers and Industry.

- It is necessary to promote working at retirement age maintaining thereby the income tax free full pension and generate opportunities to work part-time.
  - Special attention will be paid to the employment of people at pre-retirement age in order to make sure that they will not remain in the background among other job-seekers.
  - Conditions for smooth transition from work life to retirement will be created.
  - Older workers (at pre-retirement age) should have the opportunity to get training and retraining, as well as receive benefits equally with other younger employees.
4. Developing skills for the new labour market in the context of lifelong learning. In the rapidly changing environment it is essential that qualification do not lag behind the changes. Therefore, it is necessary to create favourable conditions for training and acquiring of new skills for those already in the labour market as well as for those still studying. A flexible educational and training system, able to respond to the changes, is an essential factor in the development of Estonian economy and increasing the employment rate.
5. Decreasing of structural unemployment and anticipating threats through active policies. Simultaneously with unemployment and exclusion from the labour market, in specific sectors and regions lack of labour can be observed. This situation endangers Estonia's economic growth. To decrease structural unemployment, active policies will be implemented to alleviate the arisen situation:
- To create additional jobs in country regions, it is planned to support and develop activities that help to generate and revive entrepreneurship in various fields.
  - To support the diversification of entrepreneurship in rural regions and to increase competitiveness, improving social and psychological environment, development of infrastructure and the initiative of rural population in uplift social cultural and natural qualities of their environment.
  - To increase the mobility of labour force and structural homogeneity via enlivening job mediation and exchange of information, self-service system will be established based on the elaborated Labour Market Board database of vacancies and training possibilities. It will enable job seekers to search information on employment services and situation in the labour market independently and to enter their own data with the aim of finding the job.
6. Diminishing of discrimination and increasing labour market openness. The labour market is not always accessible for the disabled in Estonia, thus increasing the risk of their social exclusion. The employment rate of the disabled has decreased dramatically in the last decade. To open up the labour market, make it more supportive and to improve the integration of the disabled to the work life, the following actions have been planned:
- Creation of subsidised jobs for the disabled youth in 5 regions. In the course of the project, through activation, the disabled young people will be better integrated to social and work life.
  - The training of counsellors and the employment of the young disabled. To complexly solve employment problems of the young disabled, and additional collaboration network will be established comprising of various state institutions, private and non-profit organisations involved in employment issues.



- The disabled will be provided with the essential skills on the field of ICT and during counselling sessions they will be encouraged to enter the labour market. After completing relevant training, it will be easier for them to adapt in the labour market and that will be able to perform distance work.
7. Making it easier to start up and run businesses and creation of new opportunities for increasing employment in the knowledge-based society and services sector. The direct objective of the entrepreneurship policy is to foster business and creation of new jobs and to enhance the competitiveness of Estonian enterprises. The principle of balanced regional development constitutes the basis for achieving the objectives set. Entrepreneurship policy is horizontal in its essence, being tightly coupled with the development of several specialised fields led by independent policies or action plans. The support for entrepreneurship focuses on developing human resources in enterprises, improving funding, elaborating support structures for enterprises, improving access to business information and simplifying administrative procedures.
  8. Regional and local action for employment. Regional development in Estonia is not uniform and the polarisation and contrasts between different regions are large. One of the most important objectives of employment policy is to create and elaborate preconditions for a balanced regional development. This can be attained via relevant regional development programs.
  9. Modernising work organisation. Effective work organisation requires the involvement of social partners into decision making process and discussion on all levels that deal with relevant issues.
  10. Supporting adaptability in enterprises as a component of life-long learning. Adult education strategy and implementation mechanisms will be elaborated based on life-long learning principles. The priority areas in adult education are: training for entrepreneurship, regulation vocational education system, social adaptation training for teachers, counsellors, instructors and school psychologists to enhance their ability to work with people in risk groups and with adaptation difficulties, training of trainers, civics and participatory democracy.
  11. Gender mainstreaming approach. The basic component in the implementation of the equal principle is the existence of adequate information and its accessibility for certain political subjects as well as to wider public:
    - The most essential manuals on the legal, analytical and application issues of gender mainstreaming will be translated into Estonian and published thereafter. The existence of the materials is absolutely necessary to raise the public awareness of equality issues.
    - Equal opportunities website will be created.
  12. Increasing the employment rate of women. The first step in increasing the employment rate among women is to obtain a clear overview of the working and business environment and its problems. It will help to improve the conditions more efficiently. The second step is to increase the availability of services necessary to start and operate a business.
  13. Reconciling work and family life. A fulfilling family life is an inseparable component of gender equality at work. For various reasons women find it difficult to harmonise those two and therefore it is necessary to study the background of these issues in order to be able to offer more viable solutions. To reveal the causes for gender discrepancies in the economic status and



productivity at work, a collection of indicators will be developed based on two aspects: (1) different opportunities and positions for men and women in the labour market on organisation/business level, (2) parameters characterising the division of paid and unpaid work and the use of time resources between men and women.

Financing for the Action Plan comes from the following sources: national budget, bilateral co-operation projects, funding by Phare, SAPARD and the Privatisation Reserve Fund (out-of-budget Government fund).

# Annex 2

## National development plan: Tackling youth unemployment

Decrease in the employment rate and the rapid growth of unemployment accelerated after 1997, when Estonian economy experienced severe setbacks. Unemployment in Estonia has been steadily increasing over the last years, and in spite of positive economic growth in 2000, unemployment reached the all time high of 13.7 percent. Risk groups in the Estonian labour market are defined as comprising the youth in the age group 16-24, the disabled, the long-term unemployed, mothers with small children, job-seekers who have lost their qualification, people at pre-pension age, people released from penal institutions, non-Estonian, etc. Unemployment growth has been especially rapid among young people, and the number of people who have been out of work for more than one year has risen.

One of the profiles of the employment policy is to insure the share of all active employment measures pursuant to the needs of the risk groups and labour market. As the situation on the labour market has become tenser, risk groups need a more tailored approach. For that purpose it is necessary to adjust available employment measures (training, vocational counselling, employment subsidies to employers and the unemployed, community placement) and increase their volume.

### WHY develop?

The unemployment rate among the young (15-24 years old) is traditionally higher than the unemployment rate as a whole in most of the countries. The reason being that most young people at this age are studying and thus their employment rate is low. The cause for concern is the share of young people who neither study nor work. The unemployment rate among the youth has been rising and the danger to remain unemployed after finishing school is increasing.

### Economic status of young people aged 15-24 in 1991, 1995-2001

	1991	1995	1996	1997	1998	1999	2000	2001
Population in age group 15-24	216.2	211.4	209.5	208.2	207.8	209.2	210.7	200.1
Number of employed (thousand)	103.6	86.6	80.9	81.0	77.8	67.9	67.1	62.1
Number of unemployed (thousand)	(3.7)	14.2	15.4	13.6	14.5	16.7	21.0	17.8
Inactive persons (thousand)	108.9	110.6	113.2	113.6	115.5	124.6	122.6	120.2
Employment rate (%)	47.9	41.6	38.6	38.9	37.4	32.4	31.8	31.1
Unemployment rate (%)	(3.5)	14.1	16.0	14.4	15.7	19.8	23.9	22.2
Youth unemployment ratio (% population aged 15-24)	1.7	6.7	7.4	6.5	7.0	8.0	10.0	8.9

Source: Labour force surveys.

In 2000, the total number of the young unemployed reached 21 thousand (see Table). In 2001, the unemployment rate of the young was recorded 22.2%, the corresponding figure in the EU being 16.7%. In order to alleviate the seriousness of the problem, an increase in the share of active and preventive employment measures is planned, the aim of which is to assist the youth in integrating to the labour market and enhance their adaptive capacity.

### WHAT to develop?

The following specific actions will be implemented:

- Planning education, especially vocational education, is of utmost importance. It would help to identify the needs of the students earlier to forestall potential risks and overcome already existing problems. In December 2000, Ministers of Education, Economic Affairs and Social Affairs and representatives of employers' and employees' organisations and Chamber of Commerce and Industry signed the cooperation agreement for the years 2001-2004. The objective is to guarantee qualified workforce and its correspondence to labour market demands.
- In the framework of the Phare 2001 project 'Promoting the employment of the youth', the aim of which is to enhance the employment of the youth, active measures to better integrate the young in the labour market in Ida-Virumaa, Southeast Estonia and islands will be developed and implemented. During the implementation phase of the project, apprentice positions and subsidised jobs will be created at enterprises for students in two chosen fields, schemes to motivate employers will be elaborated and vocational counselling will be provided. In addition, in framework of the same project, employment offices' consultants, specialising in counselling the youth, will be trained. As a result of the project, guidelines for the combined implementation of different employment measures corresponding to the needs of the youth will be prepared.
- A study 'Adaptation of the youth in the labour market and factors influencing it' will be conducted. The objective of the study is to analyse the adaptation capability of the youth in the labour market, obtain an overview of the factors having impact on professional success or failure, identify the issues of the groups of young people with a higher risk to remain unemployed and find ways to reduce unemployment among the youth. An overview of their behaviour and the changes thereof, dependant on the educational level, personal characteristics of the youth and the conditions in the labour market during the last ten years, will be provided. Factors impacting the transition of the youth from schools to the labour market are being identified and evaluated. To perform the analysis, the data from Estonian labour surveys is used, questionnaire-based survey will be carried out in all the counties and focus group discussions are also planned. As a result of the survey, recommendations to implement labour market policy measures will be suggested to enhance the competitiveness of the youth labour market.
- To assist the long-term unemployed without special skills or work experience (among long-term unemployed the share of young people is very high) in finding employment, a new employment measure - work practice – will be developed and piloted. The aim of work practice is to provide the unemployed an opportunity to obtain work experience and work habit and acquire some simpler skills. After the preparation of the necessary guidelines, work practice will be tentatively used by different employment offices to find out whether the measure matches the needs of employees and the unemployed. As a result of the pilot implementation, proposals to amend the legislation and adding work practice to the list of employment services will be submitted.
- The labour market is not always accessible for the disabled in Estonia, thus increasing the risk of their social exclusion. The employment rate of the disabled has decreased dramatically in the last decade. To open up the labour market, make it more supportive and to improve the integration of the disabled to the work life, the following actions have been planned:
- Creation of subsidised jobs for the disabled youth in five regions (Jõgevamaa, Põlvamaa, Sillamäe, Valgamaa, Hiiumaa). In the course of the project, through activation, the disabled

young people will be better integrated to social and work life. Contacts between different parties will be fostered and collaboration on different levels and between representatives from different sectors will be enhanced in order to solve the problems more efficiently. 90 subsidised jobs will be created.

- The training of counsellors and the employment of the young disabled. During the project vocational counsellors/implementer will be trained. They will assist in preparing the young disabled for entering the labour market. First, 20 subsidised jobs will be created. To complexly solve employment problems of the young disabled, an additional collaboration network will be established comprising of various state institutions, private and non-profit organisations involved in employment issues.

### **WHEN to develop?**

Some projects (development of vocational education system, active employment measures, etc) are implemented already for several years, some pilot projects were starting in 2002.

### **WHERE to develop?**

Some pilot projects in different counties of Estonia, where the unemployment rate is highest and the possibilities to find job is the hardest, for example in Ida-Virumaa, Southeast Estonia, and in islands. For example, under the guidance of the Ministry of Economic Affairs and in co-operation between the Ministry of Social Affairs and the Ministry of Education, the Ida-Virumaa State Employment Program was prepared. The aim of the program is to decrease unemployment in Ida-Virumaa by concentrating the state resources on complex implementation of measures in business, social sphere and education. The program was prepared on the premise that the only way to decrease unemployment and increase employment was to promote and support private sector mainly by promoting human resources development. Other projects cover whole country.

### **WHO are responsible?**

Action plans are prepared in cooperation with social partners and institutions who are responsible for the implementations of the programs are Ministry of Social Affairs, Labour Market Board, Employment offices, Ministry of Education, Ministry of Economic Affairs, local governments, social partners, non-profit organisations.

### **WHAT resources are available?**

Financing for the different projects comes from the following sources: national budget, bilateral co-operation projects, funding by Phare, and the Privatisation Reserve Fund (out-of-budget Government fund).



# Social dialogue and EMU in Hungary

# 2

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In Hungary, there is a general acceptance towards accession to the European Union, opinion polls confirming that the majority of the population supports it. The polls also reveal, however, that people are hardly aware of its possible impacts on their life, work, and living conditions of their families. Therefore, first of all more information should be provided on these matters, and subsequently people should be encouraged to have more say in the matters of European integration. In this regard, the role of the social partners is of vital importance. In addition, experiences of the present EU-members have shown that the process towards the Single European Market and the European Monetary Union (EMU) had a major impact on the economies of the individual members and the role of social dialogue there. It is important, therefore, that already in the present stage of the accession process the social partners should be well prepared for those changes, which could be anticipated in the wake of joining the EMU. In this way, they would be able to contribute to develop such a strategy which could promote not only economic growth, but help increase employment and achieve better social conditions as well. This is the ultimate aim of the elaboration of a national development programme for the preparation process for EMU.

This paper sets out to deal with this topic and consists of two main parts. The first part gives a general overview of the current political and economic situation of the country, as well as a brief account of the present state of industrial relations in Hungary. This part could serve as a background for outlining main ideas and concepts for a national development plan for the preparation of EMU, a topic which is dealt with in the second part of the paper.

## Political situation

In Hungary general parliamentary elections are held every four years. The first free elections were held in spring 1990. Since then, altogether three successive governments have been in power, and all of them have served their terms of office, which can be regarded as a sign of political stability. The fourth elections took place in April this year. As a result, a new, left wing and liberal coalition government replaced the previous conservative one in May (see Table 1.)

**Table 1 Governments in power in Hungary since the first free elections**

	1990-1994	1994-1998	1998-2002	2002 -
<b>Name of the coalition</b>	<b>Conservative, mid-right</b>	<b>Socialist-liberal</b>	<b>Conservative</b>	<b>Socialist-liberal</b>
<b>Members of the coalition</b>	<ul style="list-style-type: none"> <li>– <i>MDF</i> (<i>Hungarian Democratic Forum</i>);</li> <li>– FKGP (Independent Smallholders' Party)</li> <li>– KDNP (Christian Democratic People's Party)</li> </ul>	<ul style="list-style-type: none"> <li>– <i>MSZP</i> (<i>Hungarian Socialist Party</i>);</li> <li>– SZDSZ (Alliance of Free Democrats)</li> </ul>	<ul style="list-style-type: none"> <li>– <i>FIDESZ</i> (<i>Alliance of Young Democrats</i>)</li> <li>– FKGP (Independent Smallholders' Party);</li> <li>– MDF (<i>Hungarian Democratic Forum</i>)</li> </ul>	<ul style="list-style-type: none"> <li>– <i>MSZP</i> (<i>Hungarian Socialist Party</i>);</li> <li>– SZDSZ (Alliance of Free Democrats)</li> </ul>

Note: Parties in italics are the ruling parties.

Although the Hungarian Socialist Party (MSZP) is the successor of the Hungarian Socialist Workers' Party, ruling during the Communist period, according to the Western media they 'are now

quite like modern European social democrats'. (The Economist, April 27, 2002.) Indeed, this big left-wing party identifies itself with social-democratic values. Its coalition partner is a small liberal party, a consequent supporter of the free market economy. The previous coalition was defeated in the last elections only with a very narrow majority. The results mean that the new government coalition has altogether 198 seats, whereas the former conservative coalition has 188 seats in the Parliament. On the one hand, this slim majority obviously raises the question of stability, and according to many analysts, discipline is needed in the Parliament much more than before. On the other hand, however, the only right wing party which, due to its anti-Semitism and xenophobic views, could be regarded as an extreme one, MIÉP (Hungarian Truth and Life Party) fell out of the Parliament, and this fact might support stability.

It is a subject of many debates why the conservative coalition lost the elections after a period of continuous economic growth. At first glance, it is all the more inexplicable because turnout at the elections reached a record 71% at the first round, and an even higher level of 73% at the second round. Analysts say that mainly protest-votes (against the conservative government and especially its ruling party, the FIDESZ) characterised the elections. The corruption affairs of some high-ranking Smallholder's Party members (a coalition partner) became known last year. This led to a virtual collapse of this party (having less than 1% at the current elections). Some reasons of mainly social character might have also contributed to the defeat: economic growth failed to translate into a general, appreciable improvement in the standard of living, although the personal income level has certainly risen to some extent. Income inequalities, however, widened further. According to some recent opinion polls, people tend to associate corruption also with FIDESZ (although some cases of corruption were revealed also during the period of 1994-1998, when the Social-Liberal coalition ruled Hungary). Moreover, the government failed to launch serious reforms on such important areas, like for example the health service. According to one of the analyses, the prime minister's 'increasingly authoritarian approach with regard to price controls and reforms, coupled with charges of cronyism, have held the economy back from the full growth spurts expected of it' (Guardian, April 10, 2002.) Presumably, it was the autocratic attitude which played some role also in marginalising the social partners (see details on this process in the section on industrial relations)

Investors seemed to welcome the outcome of the elections (after the first round there was a sharp rise at the Budapest stock exchange). There are, however, some fears for an already over-stretched budget, which could be a real challenge for the new government, especially in view of the increased requirements for financing the so far neglected health and pension reforms. The over-stretched budget is deriving from the large commitments made by the previous government (partly in the last moments of its period in office). In addition, the perspective of over-expenditure is caused also by the fact that during the election campaign the biggest two parties (the Socialists and the Young Democrats, i.e. FIDESZ) were competing also in their promises. This, in the case of Socialists, included increases in social benefits and public sector wages, and at the same time they are also planning tax cuts. Many of the promises would be fulfilled during the first 100 days in office. The new government should face also political challenge since its opposition will be the biggest ever and certainly very active, self-confident and strong.

It seems likely, however, that 'the new government will have better relations with European Union governments and foreign investors' (Financial Times, Robert Wright, April 24, 2002). After the elections Günter Verheugen, member of the European Commission, who is responsible for enlargement, said that he is 'confident that Hungary will proceed with determination in its

preparation towards the accession to the EU.' Indeed, negotiations with the European Union are advancing well, so far 24 chapters have been temporarily closed.<sup>7</sup>

## Economic situation

### Economic performance in relation to the Maastricht criteria

Since 1997, the Hungarian economy has been growing rapidly, at such a pace that could produce an annual growth rate twice as high as the EU average. (See Table 2).

**Table 2 Development of some major macroeconomic indicators in Hungary, 1992-2000**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Indices of GDP 1989=100	82.4	81.9	84.3	85.5	86.6	90.6	95.1	99.1	104.3	108.3
GDP growth (%)*	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8
Growth of industrial production	-9.7	4.0	9.6	4.6	3.4	11.1	12.5	10.7	18.1	4.0
Consumer price growth index*	23.0	22.5	18.8	28.2	23.6	18.3	14.3	10.0	9.8	9.2
Unemployment rate ILO	9.8	11.9	10.7	10.2	9.9	8.7	7.8	7.0	6.4	5.7
Number of employed (%)*	-	-2.3	-2.0	-1.9	-0.8	-0.1	1.4	3.1	1.0	0.3
Labour productivity (%)*	-	-1.7	5.0	3.5	2.1	4.7	3.5	1.1	4.2	3.8
Growth of gross real earnings*	1.7	-0.5	5.1	-8.9	-2.6	3.4	3.5	5.5	3.4	8.1
Net increase in real wages*	-1.4	-3.9	7.2	-12.2	-5.0	4.9	3.6	2.5	1.5	6.4

Note: <sup>a)</sup> GDP/employee

\* preceding year = 100%

Source: Central Statistical Office, Budapest

This faster growth could serve as a basis for achieving real economic convergence with the European Union. Although 'Hungary has the potential to maintain high and relatively stable growth over the medium term' (European Commission, April, 2002), it is an open question whether the real and the monetary convergence could be implemented simultaneously, especially with regard to the ambitious inflation target to be detailed below. Nevertheless, some developments have obviously contributed to the economic growth. For example, in Hungary a conscious policy of attracting Foreign Direct Investment (FDI) started relatively early, already towards the late 80s, when some liberalising measures were introduced, which facilitated foreign capital inflow. Later privatisation contributed to increase foreign direct investment. As a result, during some years of the 1990s, Hungary had the highest stock per capita foreign direct investment among the Central and Eastern European candidate countries. Now the stock of FDI stands at around 25 billion Euro. There have been some controversial cases of companies with foreign capital. By nowadays, however, it has become clear the FDI contributed to developing a knowledge-based economy, by modernising certain industries. It was also evident that not only low labour cost, but also the relatively qualified and motivated labour force helped in attracting FDI. In addition, over the 1990s, large improvements in the telecommunication sector were developed, and this also facilitated the operation of foreign owned enterprises.

Despite these obvious positive developments, there are some weaknesses in the Hungarian economy, which proved difficult to remedy. For example, although the country is small, there are

<sup>7</sup> Status: December 22, 2002. Source: Homepage of the Ministry of Foreign Affairs of the Republic of Hungary <http://www.kum.hu>.

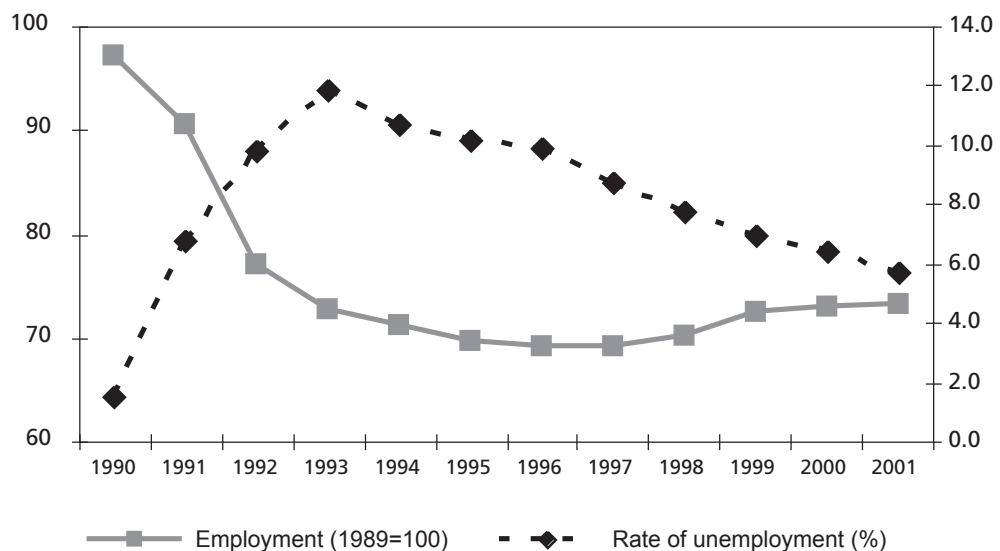


large regional disparities, which are reflected also in the labour market (as shown by regional unemployment differences to be detailed below). It is clear that some of the weaknesses derive from the legacy of the planned economy. For example, inflation is still relatively high, price control has not been entirely abolished, in some areas it still exists, and as a result, the price structure is different from that in the EU-members, and the price level is uneven. It is inevitable that this will change in the near future, since Hungary is a small, open economy, and this will become less and less sustainable, especially as the accession process is going ahead. Due also to its smallness, the Hungarian economy is very vulnerable to cyclical changes in its export markets. So the country's export performance depends not only on the economic policy, but to a large extent also on external factors.

### Labour market performance

As a result of recent economic growth, the labour market is showing signs of improvement: as can be seen from Table 2, unemployment has been falling since the mid-nineties, and employment started to increase in 1998 (although its growth rate has recently slowed down). Level of employment, however, is still well below that of the pre-transition period, and has not reached even the level of 1992, as Figure 1 shows. It is also clear from Figure 1 that in Hungary (like in most other Central and Eastern European CEE countries) unemployment rose in the early nineties to levels comparable to those in the developed countries classed as having high unemployment. (The national labour force shrank by over 1.5 million between 1988 and 1997.)

**Figure 1 Labour-market indicators: changes in employment level (left-hand scale, 1989 = 100) and unemployment rate (right-hand scale, %)**



Source: Central Statistical Office, Budapest, 2002.

Despite the recent favourable developments, however, it is still questionable whether this trend could be maintained in the near future and continues even after joining the European Union. This depends on some unpredictable factors, including not only economic growth, but also conditions

of the accession, and its impact on employment. Although the aforementioned data suggest an unambiguous improvement on the labour market recently, if the labour force participation (activity rate<sup>8</sup>) is considered, it becomes clear that, with a rate of 59.9% in 2000, the situation in Hungary is not so favourable as in most of the European Union member states. Even among the East-European countries, the rate is the lowest. Similarly, the employment rate is not very high, either. Although it has improved recently, it is still nearly 6% lower than the EU average.

Large economic disparities existed between regions and between the various types of settlements in Hungary even before the transition. It is not surprising, therefore, that once market forces began to apply, many of the problems persisted and became even more visible. They are reflected in labour-market diversification, shown by large differences in unemployment rates and in economic activity. Unemployment rates by counties (traditional regional administrative units) show that counties with high unemployment can have rates three or even four times higher than those with low unemployment. For example, in 1998 the rate in Budapest stood at 4.5%, whereas in some counties in Northern Hungary the respective figure reached 19.2% (source: National Labour Office, Budapest). It is remarkable that despite improving labour market performance in the late 90s, differences in regional unemployment rates have not changed much. This supports the assertion that labour-market disparities are deeply rooted. The problem is that especially in small villages and fairly remote areas, the chances of finding a job are very poor. The integration of these communities into the economy is impeded by the poor road system. This is a grave problem even in more developed counties. An underdeveloped transport infrastructure is a major impediment to labour mobility. Furthermore, the rapid, sizeable economic decline in some backward areas since the transition has caused housing prices to slump, leaving people unable to sell their homes and move elsewhere. This is characteristic especially of regions in northern Hungary that were formerly centres of heavy industry (like for example in Borsod-Abaúj-Zemplén county).

According to the most recent figures, long-term unemployment has decreased. This, however, could be explained by some measures of the government two years ago, rather than a considerable improvement on the labour market. (Data of the Labour Force Survey confirm poor chances of finding jobs: the number of the so called 'discouraged workers', i.e. those who gave up job search due to hopeless prospects, amounts to around 100 thousand persons every year.) The aim of the measures was to redirect financial resources, spent previously for unemployment compensation, to more active labour market policy. They included a reduction in the period of entitlement to unemployment benefit from one year to nine months. As regards the long-term unemployed, the means-tested 'income supplement', provided previously for them, was abolished, and instead a 'work test' was introduced. This means that if they participated in a public utility or public work scheme for at least one month, they became eligible for permanent social assistance. Experiences showed, however, that it proved difficult to organise these schemes due to lack of both financial and organisational capacity of many of the local municipalities. Even if the main objective of some of the aforementioned measures was to encourage people for job-search and thus to integrate unemployed persons into the labour market<sup>9</sup>, it is clear that living conditions of many of the

<sup>8</sup> Share of the economically active population (employed persons and unemployed) in the working age population, which, according to the Hungarian statistical standards, is the population between 15-74 years (though for international comparison the standard 15-64 years is more and more often applied as a base).

<sup>9</sup> These measures seem to reflect the employment guidelines of the European Union, obviously already in the spirit of the preparations for the accession. As is well known, one of the main concepts behind these guidelines is to promote 'employability'.

unemployed deteriorated. Recognising harmful side-effects of these measures, the new government is considering the ways and means of involving long-term unemployed persons in the labour market most efficiently.

As regards wage developments, recently the minimum wage has been increased to a large extent. For the first time, in January 2001, the government raised it by almost 57% and for the second time next year, in January 2002, by a further 25%. As a result, its share in the gross average wage became much higher: from the level of 28.8% in 1998 to 42.3% in 2001. Although the government tried to explain the increase with the requirements of the catching up process to the current EU-members, preliminary estimates on its main effects made it clear that the central budget would be the main beneficiary of this measure. Of course, there have been some fears of its employment effects, raised primarily by the trade unions. As regards this, at the moment it is difficult to draw an unambiguous conclusion especially in the macro-data since only a short time has passed since its introduction. An empirical survey<sup>10</sup> showed, however, that certain branches (for example, trade) and their workers were adversely affected. (There were some cases of layoffs, and also more work for less pay as a result of adjustment of the employers to the increased labour costs.)

### **Current monetary conditions in relation to the Maastricht criteria**

As is well known, some time after accession to the European Union, the candidate countries have to join also the European Monetary Union (EMU). Before becoming a full member of the EMU, however, they are obliged to meet all the Maastricht criteria, which are as follows.

- Exchange rate: minimum two years before the accession to the EMU, the currency should join the Exchange Rate Mechanism (ERM II), where the trading band is +/-15%;
- Inflation: it should exceed the average inflation rate of the three best performing EU-member countries by a maximum of 1.5%;
- 10-year (long-term) interest rate: it could exceed by a maximum of 2% the average long-term interest rate of those three EU-member countries, where these interest rates are the lowest;
- Budget deficit: it is not supposed to exceed 3% of the GDP
- State debt: it is not supposed to exceed 60% of the GDP.

Of these criteria, it is the inflation target which seems the most challenging task for Hungary to fulfil. The previous government, which was also determined to the EU-accession, set an ambitious objective according to which inflation should be decreased continuously and to a considerable extent because over the last couple of years it remained relatively high, compared also to other countries in Central and Eastern Europe. The annual average inflation of 9.2% in 2001 was only slightly lower than a year earlier (see Table 2), but the most recent trend seems more favourable.

In mid 2001 the National Bank of Hungary (NBH) changed the exchange rate system by making it more flexible, and this obviously contributed to disinflation. The currency's trading band was widened to +/-15%, and the previous devaluating crawling peg exchange rate system was entirely abolished. The reason for widening the band was that this would allow an appreciation of the currency, and thus, would help to reduce inflation. This has actually happened because, as a

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<sup>10</sup> See: GKI, Adler.

result, between May and December last year, the Hungarian currency (Hungarian Forint) appreciated in real terms by about 12%, and the year-end inflation was reduced to 6.8%. It is doubtful, however, whether the trend of disinflation could be sustainable in this way, and if yes, to what an extent. It does not seem likely that such a high real appreciation level could be repeated since this was only a one-time reaction to modifying the exchange rate system, and even if nominal appreciation continues, its extent is supposed to be lower. This might be one of the reasons why Hungarian experts (research institutes – see the forecasts in the Annex) expect higher inflation than the one targeted by the National Bank. According to the forecasts, this year the inflation could be between 5.2-5.7%, whereas the central bank's inflation target is only 5% (its end-of-year inflation target is even lower, 4.5%) In addition, there are some risks threatening also on medium term such a dynamic inflation decline. They include 'a rapidly growing domestic demand, a continuation of fiscal relaxation, and a possible domestic price-push following the planned step-by-step liberalisation of certain regulated prices'. Especially as regards the very low target (2%) by as early as 2004-2005, one could agree with the conclusion by the European Commission, which says that they 'would only be achieved at some cost for the real economy'. At the same time, however, the potential inflationary pressure from the wage side does not seem high at the moment. According to the Commission, 'present wage developments should not add considerably to inflation, since they not least represent a catching-up phenomenon after several years of strong productivity gains which had regularly remained significantly above wage settings.' As regards future wage developments, however, the Commission says that they 'will need to be brought back into line with productivity growth, in order not to start exerting inflationary pressures'.

At first glance, there are fewer problems with fiscal policy. The figures suggest that the deficit hardly exceeds the targeted 3%, and the public debt stands at around 60%. There are some items, however, which are not included in the budget, although, according to the Maastricht Treaty, they are supposed to be there. If they are also considered, the deficit could be higher than 5%. In addition, as mentioned above, the budget is already over-stretched. Although this could be a short-term phenomenon, it is an open question how the deficit could be kept within reasonable limits. Moreover, as a result of the aforementioned dynamic inflation decline, budget revenues could decrease because the seigniorage revenues could be lower. Over the past few years extra revenues were generated also because the inflation has always been higher than planned. Moreover, major reforms in such areas (like for example health and pension systems), are still to be implemented, requiring further budgetary resources. Therefore, a gradual, annual ease in the deficit could only be expected after these reforms, but even at that time this seems realistic if the disinflation trend continues. Favourable budgetary trends require, however, dynamic GDP-growth. The aforementioned ambitious inflation target could adversely affect the latter (due to appreciation requirements, which are not favourable for the export performance, serving as a base for economic growth in such a small, open country, like Hungary is). Therefore, sustainable, meaningful growth would require slower progress in financial stabilisation (Dezséri, Rácz, Ferkelt, 2002.).

Nevertheless, if Hungary's current fiscal and monetary position is compared to that of the less developed Mediterranean EU-member countries three years before their joining the EMU, it is clear that in most of the criteria, the country is actually closer to fulfilment than, for example, Greece was at that time, and in the case of the two fiscal criteria, the Hungarian performance is better than that of Spain, Portugal and Greece in the mid-90s (see Annex).

## Industrial relations

In Hungary, the institutional framework for a tripartite social dialogue was set up so early, in the late eighties, that in Central and Eastern Europe, this was the first to be established (Ladó, Tóth, 2000.). First, in December 1988 the National Interest Reconciliation Council (NIRC) was founded, later in 1990 it was renamed and restructured to Interest Reconciliation Council (IRC). This consisted of the employees' and employers' representatives as well as those of the government. During the first turbulent years of transition, the Council, as a key institution for tripartism at national level, played an important role not only in preventing and solving social conflicts, but contributing to the preparation of the new labour legislation and rules as well<sup>11</sup>. The IRC helped maintain social peace in 1995-96, when real wages dropped by 18%.

At the same time, however, it had serious difficulties to face. They came into surface and became conspicuous especially in 1995, after the failure to conclude a Social and Economic Agreement<sup>12</sup>. According to some experts, its transformation, which was first raised at that time, was necessary (albeit not in the way it was actually carried out in 1999, 'by splitting' the IRC; see details below and the list of these institutions in Table 4<sup>13</sup>). 'None of the participants were satisfied with the activity of the IRC at that time... There was, however, a general agreement in one area: IRC must be renewed and reformed on the basis of the lessons learnt from repeated failures. This fact demonstrates that all interested parties, despite their disappointments, still believed in tripartite co-operation and wanted to maintain its basic forum' (Ladó, Tóth, 2000.<sup>14</sup>). Table 3 shows the 'interested parties', i.e. the main social partners and their current membership.

As can be seen, the number of those employers, which are represented in the national institutions of social dialogue is quite high and there are large differences between them both in terms of their tradition and also in their coverage and influence.

Despite trust of the participating parties in tripartite co-operation, the IRC had to face difficulties (as mentioned above), of which representation and legitimacy problems as well as weakness of the social partners could be regarded as the most important ones<sup>15</sup>. Growing labour market tensions, which characterised especially the first phase of the economic transition (the early 90s), have contributed for example to weakening role of the trade unions. This was reinforced by other, also in the region very common and well known factors. They include the legacy of the monolithic trade union system of the past, divergence between the emerging trade unions, difficulties to find their identity and place in the new political setting, etc. Both the biggest trade union (MSZOSZ) and the newly emerging ones had problems to reinforce their position in the workplace.<sup>16</sup> Major structural

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<sup>11</sup> See a more detailed account on IRC's functions, structure and activities in: Héthy, 2001. (pp. 21-26.)

<sup>12</sup> There were many other problems at that time, connected partly with deteriorating state of the economy, as a result of which in March 1995 austerity measures (called 'Bokros package') was introduced. This 'seriously undermined the tripartite co-operation'. Talks on concluding a Price and Wage Agreement, initiated by the IRC in the second half of the year, also failed. (Ladó, Tóth, 2000.)

<sup>13</sup> See: Interview with Lajos Héthy (M.Rimay, 2000). Among other things, he obviously referred here to establishing two councils, the National Labour Council and the Economic Council (see table 4).

<sup>14</sup> In their paper, Ladó and Tóth presented the development of tripartism over a decade, distinguishing five phases in its history (see details: Ladó and Tóth, 2000).

<sup>15</sup> See: interview with Lajos Héthy, made by M. Rimay Andrea.

<sup>16</sup> Some changes, adopted in the 1992 Labour Code may have also contributed to their weakening role in the workplace. The Code took away 'the exclusive union rights to represent employees in management decision-making', which had been given by the 1968 Labour Code, when allowed collective agreements at the workplace. The 1992 Code set up a new institution of employee representation, called works council, for enterprises with 50 or more workers. As a result, in Hungary a dual system has developed in this respect, since both the trade unions and the works council can be present at the workplace (see: Ádám, 2000).

changes in the economy, as a result of transition to a market economy, led obviously to this situation. It is understandable that in the rapidly expanding private sector, where many small enterprises operate, trade unions' presence is sporadic since per definition, firms below 50 employees have neither trade unions, nor works councils.

As a result of the complexity of the issues covered by the IRC, it was increasingly realised that for a more effective functioning, the national industrial relations system would have to be separated into two institutions: those which are to deal with economic and social issues, and those which would be concerned only with labour topics (as mentioned above, this was recognised already in the mid-nineties). In 1999, under the pressure of the conservative government, which came to power in 1998, a separate Economic Council and a National Labour Council were set up as successors of the ICR.

**Table 3 Main social partners, 2001-2002**

Trade unions	No. of members	No. of organisations	Employers
Autonomous Trade Union Confederation (ASZSZ)	180,000	30	National Federation Consumer Co-operatives (AFEOSZ)
Confederation of Professional Trade Unions (ESZT)	112,000		Union of Agrarian Employers (AMSZ)
Democratic Ligue of Free Trade Unions (FSZDL)	98,000	60	National Association of Industrial Corporations – Chamber of Artisans (IPOSZ)
National Federation of Workers' Councils (MOSZ)	57,000	12	National Federation of Traders and Caterers (KISOSZ)
National Confederation of Hungarian Trade Unions (MSZOSZ) (biggest organisation) (MGYOSZ) (biggest organisation)	600,000	42	Confederation of Hungarian Employers and Industrialists
Forum for the Co-operation of Trade Unions (SZEZ)	270,000	34	National Federation of Agricultural Co-operatives and Producers (MOSZ)
			Hungarian Industrial Association (OKISZ)
			National Association of Strategic and Public Utility Companies (STRATOSZ)
			National Association of Entrepreneurs (VOSZ)
			<i>Confederation of Hungarian Employer Organisations for International Co-operation (CEHIC)**</i>

Source: For the members of the trade unions: HVG (Hungarian weekly on world economy), May 4. 2002., (self-reported data by the trade unions).

Note: \* The numbers of the member organisations of the trade unions are in brackets.

\*\* The organisation in italics is not a separate employer organisation, but their umbrella organisation for international co-operation.

Apart from its authoritarian approach (mentioned above, in the section on political situation), that government held quite a hostile attitude towards trade unions, regarding them as some kind of 'socialist remnants'. In addition, they 'had the initial objective of rejecting any corporatist endeavours'<sup>17</sup>. Weak legitimacy of the trade unions, however, certainly explains also why this

<sup>17</sup> Ladó and Tóth (2000.) quote a public document, written by two high ranking government officials, László Herczog and Csaba Óry in 1999.



transformation could take place without the approval of the social partners. This also contributed to the fact that with this step, the government was able to marginalise the tripartite institutions.<sup>18</sup>

Focusing exclusively on labour issues, the National Labour Council, which could be regarded as the direct successor of IRC, had fewer competencies than its predecessor had. Whereas the aim of the Economic Council was to provide such a consultative forum on economic policy issues, where not only employees and employers were represented, but also chambers (Hungarian and foreign ones), multinational companies, the banking sector, etc<sup>19</sup>. As a result, ‘the powers and responsibilities assigned earlier to social partners are now shared with other actors’, therefore ‘the distinguished role that social partners possessed earlier in economic and social policy making has been curtailed’ (Ladó, Tóth, 2000.) For this reason, the evaluation of the Civil Country Report is understandable: ‘In the wake of the changes since 1998 social dialogue has become empty and reached the lowest point...’. The new forums ‘are rather designed for hearing information and opinions, not for reaching consensus or concluding agreements. The new forums of social dialogue have been degraded to simple consultations’<sup>20</sup>

**Table 4 Major organisations of the national industrial relations system, 1990-2002**

Organisation(s)	Date	Institutional/legal basis	Composition	Sub-committees
Interest Reconciliation Council	1990-1998	Government decree, backed by a Tripartite agreement**	Employers: 9 Trade Unions: 6	Yes
National Labour Council	Since April 1999	Government Decree	Employers: 9 Trade Unions: 6	Yes
Economic Council	Since April 1999	Government Decree	Multipartite	Yes (from end 2001)
Council for ILO Affairs	Since May 1999	Government Decree	Employers: 9 Trade Unions: 6	No
Council for European Integration	Since June 1999	Government Decree	Multipartite	No
Országos Érdekegyeztetési Tanács (its English name is to be decided)	Since July 2002	Tripartite agreement	Employers: 9 Trade Unions:6	Yes

\*\* Government Decree 3240/1990 in an internal, albeit not confidential governmental document. It includes obligations related only to the Government

Within this context, it is understandable, that the trade unions became quite sceptical about their potential role, voice in, and influence on the accession process. Despite this scepticism, some institutions<sup>21</sup>, dealing with European integration, have been built up, though they were established at an initiative at European level.

<sup>18</sup> This government abolished also by decree the self-governing body of the social security fund, led by the biggest trade union confederation, the MSZOSZ (Kocsis, 2000.)

<sup>19</sup> On the competencies of the National Labour Council, and a list of the participants in the Economic Council, see: Ladó, Tóth, 2000.

<sup>20</sup> Civil Country Report, 2000.

<sup>21</sup> Such organisation is, for example, the National European Integration Commission of Hungarian Trade Unions (MSZEIB), which was founded in 1996. It is a member of a committee, co-ordinating trade unions of the candidate countries. Two other institutions are concerned with the topics of the negotiations on the accession: the Hungarian-EU joint parity commission of the EU's ' Economic and Social Commission (ESC) and the European Integration Council, listed in table 4. (See a list of these organisations in: Borbély, 2000. and a detailed analysis and evaluation on the activities of some of them in: Boda, Neumann, 2000.)

As mentioned, foreign capital plays a major role in the Hungarian economy (40% of the assets of the companies in Hungary is in the hands of foreign investors, and firms with foreign capital have a share of 76% from the total import and 80% of total export). Therefore, it is worth mentioning their participation in the employers' organisations. Foreign investors are also represented in several employers' organisations, and they set up their own umbrella organisation, called Investors' Council. Its members are as follows: Permanent Commission of European Chambers, American Chamber of Commerce, Joint Venture Association, Hungarian Association of International Companies and the biggest foreign investor companies in Hungary. Previously, many of these firms had not been represented in the Interest Reconciliation Council (IRC), but they participate in the work of the later established Economic Council.

In light of the aforementioned tendency of weakening social dialogue over the past two-three years, the social partners demand, among other things, that the 'government has to resume meaningful social dialogue, genuine conciliation of interests, negotiations resulting in agreements...'. They want also the expansion of the coverage of collective agreements and improving its content. (Civil Country Report, 2000.) The employers also support these principles. (It has to be noted that at the sectoral level, employers are not authorised to conclude binding collective agreements.)

It has to be acknowledged that one of the major problems is that a significant part of workers and employers are not covered by any kind of agreements, so a large share of economic actors is not affected by industrial relations. Legitimacy problems are therefore understandable. They are also reflected in the current state of the sectoral social dialogue, which 'in the European sense, is rather poorly developed in Hungary, if it exists at all'. (Ladó, 2001.) There are several reasons why both the bipartite sectoral level co-operation, and co-operation between sectoral social partners and the relevant state administration could be regarded as the 'weakest link' in the Hungarian industrial relations system. As regards the former, the bipartite sectoral level, it is central tripartism which is comprehensive and effective, and at the same time, the traditionally decentralised collective bargaining structure makes the enterprise level dominant<sup>22</sup>: they account for a 39.3% coverage ration in the competitive sector (see Table 5). As a result, sectoral level collective bargaining is 'squeezed between central tripartism and traditional enterprise bargaining' (Ladó, 2001).

As regards co-operation between sectoral social partners and the relevant state administration, the sectoral tripartite councils (the institutional framework provided for it by a Government decree) have disappeared, and now only formal, but not meaningful consultations are going on. In addition, there are some other reasons for the weakness, like for example asymmetry of social partners at sectoral level (because some sectoral trade unions survived the political and economic changes, whereas their counterparts, the employers are either missing, or having a too complex structure).

Undoubtedly, objective circumstances, like major changes in the economy over the past decade, an instability in the wake of the transformation, diversity of enterprises within a given sector all play an important role in the weakness of sectoral social dialogue<sup>23</sup>. Nevertheless, there have been some initiatives in recent years on the area of sectoral social dialogue, which could be regarded as

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<sup>22</sup> Duality of worker' representation through presence of works council and trade unions (as mentioned above), accentuates dominance of the enterprise level (Ladó, 2001).

<sup>23</sup> See a more comprehensive list of the reasons in: Ladó, 2001.



promising. At enterprise level, social dialogue could be characterised by two extremes: big companies have trade unions, works councils, and collective agreements are concluded, whereas in the small and medium-sized enterprises, of which number is very high<sup>24</sup>, neither could be found<sup>25</sup>.

**Table 5 Coverage of collective agreements and wage agreements, 1998 and 1999**

	1998			1999		
	Single employer agreements	Multi-employer agreements	Of which: Sectoral agreements	Single employer agreements	Multi-employer agreements	Of which: Sectoral agreements
Number of collective agreements	1218	48	14	1303	52	19
Number of employees covered (thousand)	735	337	268	743	338	201
Coverage rate *	39,7%	18,2%	14,5%	39,3%	17,9%	10,6%
Number of wage agreements	768	31	n.a.	827	n.a.	16
Number of employees covered	583	305	n.a.	588	n.a.	193
Coverage rate	31,5%	16,5%	n.a.	31,0%	n.a.	10,2%

Note: \* In 198 the basis for comparison is the number of employees in the given sector. If only enterprises with more than 5 employees are taken into consideration (like in 1999), the general coverage ratio would be 45,3 %.

Source: Ladó, 2001.

In view of all the aforementioned developments within the national industrial relations system, critique of the 2001 Regular Report of the European Commission seems reasonable: 'In the area of social dialogue, the relationship between the government and the social partners continued to be marked by a lack of confidence and trust and by difficulties in operating effective tripartite social dialogue within the various newly established structures'.

Recently, the new (socialist-liberal) government expressed its intention to pursue meaningful dialogue with the social partners, with a view to concluding agreements. As a result of their previous consultations, the government and the social partners confirmed that they found it necessary to restructure the national industrial relations system. Therefore, a new institution is to be set up, which has similar functions to the former Interest Reconciliation Council. It covers not only labour and employment issues, but economic questions, including the tax system, areas concerning the central budget, draft legislation, etc. Similarly to the former ICR and the NLC, the new institution will have subcommittees, specialised on the various important topics. At the same time, the National Labour Council is abolished, whereas each of the other bodies (existing since 1999, see Table 4) will continue its work as a special forum, with the exception of the Economic Council. This is to be transformed into the Economic and Social Council, a consultative forum for comprehensive national strategic objectives and programmes. It is clear that the government and

<sup>24</sup> For example, in 2001, the number of enterprises employing between 5 and 9 employees amounted to 32 857, those applying between 10 and 19 employees 18 210, whereas the number of those, which employed above 100, amount altogether to just above 4 000. (Source: Central Statistical Office, Economic and social database, ed. E.Hanti, 2001).

<sup>25</sup> The 2001 Regular Report of the European Commission concluded that 'At enterprise level, collective agreements exist mainly in large companies.'

the social partners want to place a special emphasis on the sectoral social dialogue because a new special forum is to be established, called 'Ágazati Tanács'. Its task is to manage the PHARE programme on 'Strengthening autonomous social dialogue', and to help establish the Sectoral Dialogue Committees. According to the current plans, already in 2003 these Committees would provide an institutional framework to conclude the sectoral agreements.

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# Annex 1

## Outline of a National Development Plan from the social partners in preparation for the EMU

Before presenting our main objectives, it is important to look at the forecast of some major macroeconomic indicators, prepared by the Ministry of Finance. Table 6 shows a relatively moderate growth for the last year, reflecting a recent slowdown in the process of dynamic growth over the last few years. The Finance Ministry, however, predicts a more dynamic economic growth for the next couple of years. We have to emphasise, however, that further economic growth highly depends not only on future developments in the world economy, but also on the internal situation. Indeed, it would be quite exceptional to maintain this stable and dynamic growth and at the same time, to lower inflation at such a quick pace.

It is also an open question how the budget deficit could be reduced by more 1.25% already in 2003, when (as mentioned above) reforms of such important areas, like health service, should be launched without delay, initially requiring substantial state resources. It is also doubtful whether real wages could develop according to the plans of the Finance Ministry. First, real wages could increase even more this year (not only due to a large minimum wage growth at the beginning of the year and to its consequences on relative wages, but also to large wage increase in the public sector, as a result of fulfilment of promises during the election campaign). Second, it is problematic that after such a considerable increase, how real wages could be restrained to such an extent within a few years. Although the government is planning to agree on a moderate nominal wage increase with the social partners in 2003, it is not clear whether this could be achieved if the inflation cannot be reduced to such an extent as planned.

**Table 6 Forecasts in some major macroeconomic indicators up to 2006**

	2001	2002	2003	2004	2005	2006
Economic growth %	3.8	4	4.5	5	5	5.5
Consumption growth %	4	8	4.5	3.5	4	4
Export growth %	9.1	9	10	11	12	13
Import growth %	6.3	11	10	11	12	13
Real wage growth %	6.4	11.5	6	3	3	3
Inflation %	9.2	5.5	5	4	3	2
Budget deficit (% of the GDP)	4.1	5.75	4.5	3	2.5	2
Current account deficit (billion EURO, incl.EU-transfers)	2.2	3.5	3.5	3	3.5	4

Source: Finance Ministry, Népszabadság (Hungarian daily) July, 19. 2002. pp 12-13.

As can be seen, there is much uncertainty both about the external circumstances (conditions in the world economy, especially in the European Union), and their impacts on the Hungarian economy. Therefore, what follows, are not concrete proposals for such a Pact, but a non-exhaustive list of the main objectives, for which, in our view, a consensus of all the social partners could be achieved. We collected answers to 6 questions (all beginning with 'W'). The questions are as follows:

1. What to develop?
2. Why develop?
3. Who are responsible for the implementation?

4. When will this process take place?
5. Where to develop?
6. Which means/funds are available for this purpose?

### **What to develop?**

In Hungary, it has not been decided as yet whether a *Social and Economic Pact*, or a *Price and Wage Agreement* should be elaborated as part for preparations for the Economic and Monetary Union. According to government representatives, it is still an open question whether the social partners are able and ready to guarantee that such a pact, or agreement would be respected, and if yes, what an extent of the economy the pact/agreement could cover. The government is ready to involve other groups to such an agreement (other representatives of the civil society).

The social partners agree that the main general objective is to achieve *real economic and social convergence*. For this, *sustainable economic growth* is needed. This could only be maintained with *financial balance*, which means that budget deficit, inflation, and state debt should be kept at such a level, which makes it possible to fulfil the Maastricht criteria in due course. It seems, however, that so far the government has focused rather on monetary and fiscal conditions of the convergence, and was concerned less with social conditions. Therefore, we emphasise that social convergence is equally important, and this process should accompany that of the economic convergence. It is true, that if dynamic economic growth could be achieved, employment could also increase (according to government plans, employment could grow by 1.5-2% annually, within the next four years). We think, however, that it is important to pay more attention to the active labour market policy measures to integrate vulnerable groups into the labour market.

### **When?**

In line with the current timetable for accession, the National Development Plan (NDP) should be implemented in three phases:

1. Until the date of accession: Pre-accession period. (Expected date of accession 1<sup>st</sup> of January 2004)
2. 2004 - 2006: Preparations for the European Monetary Union (in this period the preparations could be finished)
3. 2006-2007: Full-fledged participation in the EMU.

### **Why?**

We are convinced it is important to implement the above main objectives in order to maintain and even develop the country's *competitiveness*, which is crucial from the point of view both Hungary's export performance and its stable and high economic growth. If this is achieved, *sustainable development and social peace* could be maintained, although we think that stable economic growth is a necessary but not sufficient prerequisite for human development.

### **Who?**

The main actors for promoting the implementation of the National Development Plan should be the social partners (the government, employers and trade unions), and we think that the civil society (citizens themselves and the NGOs) should take also an active part in it.

**Where?**

We think that the NDP should be implemented at central, regional and local level, and in this respect we consider important that between them (in the division of labour) a proper balance should be established.

**Which?**

For the NDP in the first phase (i.e. up to 2004), we should rely on national resources and pre-accession funds, and later (from 2004 on) on national resources and EU-funds.

In order to achieve the main goals of the NDP, the following priorities/tasks should be given special attention:

- Elaborating various employment and training programmes;
- Developing an inclusive society, by applying equal opportunity measures;
- Continuing the wage catching up process;
- Sharing responsibilities between the various actors of the Plan;
- Gaining public support (for this dialogue and training programmes are needed to raise awareness);
- Introducing capacity building measures, especially in terms of education and training;
- Monitoring progress in implementation;
- Gaining feedback and corrections.

The social partners (trade unions and employers) highly appreciate the readiness of the new government to pursue meaningful dialogue, and they want to utilise this positive and open attitude towards them, in order to achieve common objectives, among which facilitating the accession process to the European Monetary Union is of special importance.



# Annex 2

## Supplementary tables

**Table 7 Forecasts by various institutions of inflation in Hungary**

(%)

	March 2002	Dec. 2002	Dec. 2003	2002	2003
Commerzbank	5,80	5,40	4,50	5,40	4,80
KSH Ecostat	5,90	5,40	4,30	5,60	4,70
Deutsche Bank	5,90	5,20	3,80	5,20	4,20
MKB (Foreign Trade Bank)	5,80	5,40	4,30	5,50	4,50
Financial Research Instit.	5,60	5,20	–	5,30	–
ING Investment	6,10	5,20	4,30	5,50	4,20
Kopint-Datorg Research Inst.	5,80	5,00	3,60	5,30	4,30
Raiffeisen	5,70	5,50	4,20	5,40	4,60
CIB	5,80	5,50	4,50	5,50	4,90
GKI Research	5,90	5,80	5,50	5,70	5,80
OTP Bank	6,00	4,80	3,80	–	–
Postabank	5,90	5,10	4,10	5,20	4,40
IEB	5,90	5,40	3,80	5,70	4,30
Allianz	5,80	5,30	–	5,20	–
Average	5,85	5,30	4,23	5,42	4,61
Highest	6,10	5,80	5,50	5,70	5,80
Lowest	5,60	4,80	3,60	5,20	4,20

Forrás: Világgazdaság. 2002. március 21. 4. P (quoted in: Dezséri, Ferkelt, Rácz, 2001).

**Table 8 Comparison between Hungary and the less developed Mediterranean EMU member countries (3 years before their joining EMU)**

	Inflation (year average, %)	Difference from the inflation reference value	10 year interest rate (year average, %)	Difference from the interest reference value
Spain (1994)	4.7	3.1	10.0	2.0
Portugal (1994)	5.4	3.8	10.5	2.5
Greece (1996)	8.2	7.4	14.8	7.7
Hungary (2001)	9.2	5.9	7.9	0.9
December 2001	6.8	3.5	7.1	0.1
Maastricht criteria (2001)	3.3		7.0	

Source: Hungarian National Bank (presentation by György Szapáry, vice-president of the Hungarian National Bank, on January 22, 2002, at the 'Európa Klub', in Budapest).

**Table 9 Comparison between Hungary and the less developed Mediterranean EMU member countries (3 years before their joining EMU)**

	Budget deficit (GDP %)	State debt (GDP %)	GDP per capita at PPP (% in EU-average)
Spain	-6.1	60.2	77.9
Portugal	-5.9	62.7	70.3
Greece	-7.8	111.3	66.8
Hungary	-5.7 *	56.9	64.0
Maastricht criteria	-3.0	60.0	None

Source: see: Table 9.

\*Estimate for 2001, based on ESA 95



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Among all the candidate countries for EU membership, Malta is by far the smallest.<sup>26</sup> Partly for this reason, once the institutional adjustments to accommodate a much-enlarged Union are in place, Malta's membership is not generally perceived as causing any major problems for the Union.<sup>27</sup> From the local perspective, however, this issue now dominates the national political, social and economic debate. In this politically polarised society the leaders of the two main parties – the Nationalist Party which is currently in government, and the Labour Party in opposition – frequently accuse each other: of being 'obsessed' with getting Malta into or with keeping Malta out of the EU.

Public opinion polls are often cited showing a tiny majority swinging one way or the other with a significant minority of the sample investigated being 'undecided.' The EU debate, in Malta, is a highly divisive issue, as both main parties are rallying the support of their traditional followers, allies and like-minded associations, including the trade unions.

This paper is based on the assumption of membership which, in Malta's present context, cannot be taken for granted. Furthermore, as membership negotiations are still in progress, the economic conditions and their full impact on industrial relations are still undetermined.

## **Political situation**

Since independence was obtained from Britain in 1964, Malta has been a stable democratic state. The two main political parties, the Nationalist Party, which is currently in government, and the Labour Party, which is currently in opposition, have roughly the same following and, from time to time, have alternated power. There is a high political participation with more than 90% of registered electors voting in elections. While the two main parties largely represent persons with different social backgrounds, the existing class differences are not insurmountable. There has been significant social mobility particularly since the 1960s and a generous welfare state has been established with frequent improvements since the 1970s. As a result, most people have acquired a strong belief in social progress and in political efficacy. Simultaneously, there is a strong adherence to tradition, as evidenced by the considerable influence still wielded by the Church and the participation of the faithful in religious rituals.

Sociological studies have shown that political patronage and paternalism are still widely practised, reflecting the proximity and personal linkages between electors and their representatives in a small scale, closely knit society. There are also many traces of a persisting colonial mentality. The latter includes the political division of the island between the two main parties and their supporters, which sometimes borders on tribalism.

The party in government is committed by its electoral manifesto to take Malta into the EU as a matter of priority. For its part, the party in opposition is conducting an equally intensive campaign to convince the electorate that EU membership is not in Malta's best interest. Nonetheless, on the strength of its handsome parliamentary majority, the government is actively implementing its electoral programme. Significantly, this includes the process of adjustment of Malta's legislation

<sup>26</sup> Malta's size is 315.6 square kilometers and it is situated 93 kilometers south of Sicily. Its population is 380,000.

<sup>27</sup> EU survey (as reported by Dr G. Boggio, Head of the EU Delegation to Malta, at the opening of the conference on "Challenges of Change" organised by the European Documentation and Research Centre of the University of Malta – April 2000).

and its institutions to the requirements of the *Acquis Communautaire*, despite the Labour Party's opposition.

### **Economic performance**

According to commonly used international criteria, Malta may be classified among developed, industrialised country. The Maltese enjoy a living standard which compares favourably with that of its neighbouring countries. Since attaining its independence in 1964, Malta has undergone an uninterrupted process of economic and social development. Considering that this is a small, overpopulated island with very limited natural resources, this development may largely be attributed to the resourcefulness of its people and the efficacy of its leaders. Nevertheless, the general sense of well-being which prevails may also be misleading and hides Malta's economic vulnerability.

Following Malta's original application for EU membership in 1993, the Commission expressed the opinion that the country's successful integration within the EU would require 'a root-and-branch overhaul of the entire regulatory and operational framework of the Maltese economy... and to undertake vigorously the required reforms to transform Malta's economy into an open and competitive one'. It is argued that while significant progress towards reaching this aim has been achieved during the past nine years, there is still considerable ground to be covered especially if the aim is to fulfil the EMU criteria within two years after eventual membership.

Between the years 1996 and 2000, the growth rate of GDP has been calculated at 4.3% per annum to reach a *real* GDP per capita of Lm3724.6 (9311 Euro). For the period 2001–2004, however, lower growth rates are expected. According to Malta's Central Bank, in 2001, 'the progressive deterioration in global economic conditions took its toll on the Maltese economy'. This economic slow-down has further accelerated following the tragic events of September 11<sup>th</sup>. Nominal GDP growth in 2001 amounted to 3.9% which translates into a negative one per cent when corrected for inflation. Currently it is claimed by some that they perceive the signs of an economic improvement.<sup>28</sup>

Nevertheless, it is generally agreed that many challenges lie ahead. Malta's GDP per capita at 11,900 euro, is only 53.2% of the EU average according to the purchasing power standard (PPS). On the basis of the economic growth rate achieved by Malta in the years before 2001, it is estimated to take another 30 years in order to reach 75% of the current EU average level. Clearly an urgent remedial strategy is required not merely to reduce this unacceptably long period for reaching EU standards, but even for ensuring that the past rates of economic growth will be maintained in future. Hence, meeting these challenges is a necessity – irrespective of whether Malta's EU membership bid is realised or not. Once Malta joins the EU, these challenges would also become part of the EMU requirement.

According to a recent report published by the EU Commission on macro-economic conditions in candidate countries, it is stated that: 'Malta's macroeconomic challenges stem primarily from the maintenance of its external competitiveness and the reduction of the government deficit to sustainable levels. ...It will be fundamental to maintain wage growth moderation and to continue

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<sup>28</sup> Lawrence Zammit: 'How many swallows make a spring?' *The Times* (Business & Finance), May 10th, 2002.

with structural reforms to increase the competitiveness of the Maltese economy. At the same time, fiscal policy needs to progress towards further consolidation...’.

Some of the main, specific challenges confronting Malta’s economy are listed below.

#### *Reducing the public deficit*

One main challenge for the country is the reduction of the deficit in government finance from the unacceptable level of 12% in 1998 to around 4% of GDP. – as required by the EMU criteria. An increase in revenue is being achieved through the selling out of state assets and an imposition of higher taxation rates. Particular efforts are being made by government – following the insistence of trade unions – to control income tax evasion. On the other hand, it is proving difficult for government to reduce its expenditure. It should be noted that during 2001, the payment of salaries to government employees amounted to 32.9% of the recurrent expenditure while the total expenditure on social policy – including welfare benefits, education and health amounted to 60%. As expected, any attempts at reducing the established welfare benefits and threaten to reduce the people’s living standards are bound to meet with a strong resistance from the unions. Despite a number of setbacks, it is claimed that, as a result of the fiscal measures taken by government since 1998, the deficit had been reduced by 36% smaller by 2001 and the aim remains to reduce it to a level below 4% by 2004.<sup>29</sup> Much, however, remains to be done in order to narrow the ‘welfare gap’, and establish a fairer and more efficient tax collection system.

#### *Controlling the surge in public debt*

From LM516.8m in 1996, public debt has reached LM1049m in 2002 and to these must be added a further LM414.8m of Government guaranteed loans to state owned entities - amounting to approximately 60% of GDP. This worrying situation is, however, tempered by the fact that only 3.7% of this amount is owed to foreign sources while the rest is owed to local sources.

#### *Keeping inflation under control*

Recently the inflation rate has tended to fluctuate on a two year cycle. Between 1988 and 1995 the average inflation rate was 3.98%. This went down to 2.33% between 1998 and September 2001. During the first quarter of 2002 it again reached 3.62% but likely to go down at year’s end. Maintaining a steady, low inflation rate is an important condition for economic and social development.

#### *Reducing the public sector role*

The dismantling of an oversized public sector – both in terms of employment and economic activity – is another major challenge facing the Government in its EU ‘fitness programme’. This challenge is being met partly through a *privatisation programme*. The process, however, has tended to be slow and uncertain both due to technical problems at a time of international recession and to trade union opposition.

#### *Bringing the informal and ‘black’ economy into the mainstream*

This sector may be described as significant even if only on the basis of observations and rough estimates. It includes activities in agriculture, construction, tourism, repairs and maintenance, and

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<sup>29</sup> These claims are strongly denied by spokesmen of the opposition Labour Party. See, for instance: Leo Brincat, ‘The State We’re In’ in *The (Malta) Times*, October 5, 2002, p. 8-10.

related trades. Regulating such activities is not only necessary for fiscal purposes but also for the establishment of quality assurance, vocational training and working conditions, including occupational health and safety standards.

### *Industrial and economic restructuring*

This is required in order to increase the international competitiveness of industry and of the economy as a whole. It also involves co-ordinating the efforts of SME's, particularly those affected by the removal of protective levies. The value of manufactured exports in 2001 was 18.6% less than the previous year and in January 2002 there was a further decline of 20%.

### *Attracting foreign direct investment*

Malta's attractiveness for FDI has been reduced during the last decade. This followed the opening up of competition from Eastern European states which possess the advantages of geographical proximity to the north European markets, more economies of scale, raw materials and, above all, lower wages and other production costs. In order to make a better concerted drive for the attraction of FDI and to increase competitiveness, the Malta Development Corporation, the Malta External Trade Corporation, the Malta Investments Corporation, and the Institute for the Promotion of Small Enterprises are being amalgamated into a single organisation called 'Malta Enterprise'. A Business Promotion Act and an Industrial Policy Document have recently been adopted for the same purposes.

### *Active labour market policies*

The 'Joint Assessment of the Employment Policy Priorities' carried out by the Maltese Government and the EU Commission in October 2001, has identified the main areas where action is urgently required in terms of the EU Employment Strategy. The progress achieved in pursuing these objectives is assessed in the annual progress reports which are also carried out jointly. Furthermore it is expected that some tangible assistance in realising these objectives will become available through the European Social Fund. The requirements are also being incorporated in the National Development Plan. One overall goal is to increase the employment rate which, at 54.6%, is 8.7% lower than the EU average. The participation of women, at 33.1% is 20.9% lower than the EU average.

### *Achieving a balance between labour supply and demand*

The main priorities include: adopting a national human resources development strategy; the upgrading of vocational education and training; systematic efforts to raise skill levels; an emphasis on multi-skills; flexibility, and global quality standards; new efforts to reduce illiteracy. The active involvement of the social partners is necessary for the effective pursuit of these aims.

### *Environmental and waste disposal management*

Short of effective, urgent action in this regard, all other socio-economic development will be jeopardised.

### *Upgrading tourism services*

Constant increases in the number of visitors are unsustainable. Tourist arrivals dropped by 2.9% in 2001, resulting in a loss of 2.8% in earnings from tourism and a further drop is predicted for 2002. It is necessary to aim at quality rather than mass tourism and to pay more attention to client satisfaction.

*Reforming the tax and social benefits system*

The aim is to reduce poverty traps while providing the right incentives for people to take up work. The problem of a widening welfare gap must be addressed. Furthermore the national insurance scheme must be revised in order to safeguard its viability.

**Labour market**

At the end of 2001, the total workforce consisted of 155,751 persons. This constituted an employment rate of 54.2% which is low by EU standards. The main occupational categories for full-time workers are listed below.

Occupational Categories	
Males	70.8%
Females	29.2%
Private Sector	66.7%
Public Sector	33.3%
Manufacturing	20.2%
Market services*	36.8%
Other Services	26.7%
Construction	7.7%
Agriculture & Fisheries	2.1%
Registered Unemployed	6.5%

\* Excluding utilities

Source: National Statistics Office: Labour Force Survey – December 2001

The main sectors of the Labour market with the contribution of each sector to GDP are listed below:

- The share of agriculture and fisheries both in GDP and in terms of occupation is very small: 2.5% and 1.8% respectively.
- The share of construction and quarrying accounts for 2.7% of GDP and 3.8% of employment.
- Manufacturing industry as a whole contributes 22.3% of GDP and 21.9% of total employment (excluding ship repair and shipbuilding).

Malta's manufacturing sector falls into two categories. On the one hand there is an internationally competitive, export-oriented category. These enterprises are often the local subsidiaries of multinational companies, attracted to Malta over the years by a package of state sponsored incentives. On the other hand, there is also 'a relatively uncompetitive, inefficient and protected category producing mainly for the local market'. It has been pointed out that 'significant restructuring must take place in some of these enterprises before EU accession in order to adjust to increased competition'.<sup>30</sup>

It should be also noted that 50% of the protective levies have already been removed in the last two years and the remaining 50% will be removed in January, 2003. Furthermore, the Maltese workers

<sup>30</sup> Report on Updating the Commission's Opinion on Malta's Application for membership, 1999.



and their representatives are not generally prepared to accept unilaterally a lowering of their own working conditions in order to secure the competitiveness of industry. The new Employment and Industrial Relations Bill, which is currently being debated in parliament, has been criticised by the employers' representative bodies on this score.

The 'local' manufacturing sector includes the following industries:<sup>31</sup>

- Food manufacturing with 2.3% of the gainfully occupied.
- Furniture and fixtures with 1.8% of the gainfully occupied.
- Transport equipment with 2.2% of the gainfully occupied.

The total number of employees in the above sectors has been declining in recent years and currently amounts to approximately 9148 persons. The decline is not due to any fall in consumption. It rather reflects the sector's inability to compete internationally, due to the creation of more capital intensive firms, cheaper labour, economies of scale and the use of more efficient technology in competitor countries.

Another important sector, which has been highly debated over the years, is that of ship-repair and ship-building. The two state owned enterprises of this sector collectively employed 3500 workers in 2001 (2.5% of the entire workforce). They require an annual state subsidy of around Lm10m. (25m Euro). The industry has been making heavy losses for the last twenty years despite the many efforts made throughout this period to make it viable. These included a steady reduction of the workforce, mainly through natural attrition. An early retirement scheme, with generous terminal benefits offered by government, has recently attracted the voluntary resignations of 700 employees from Malta Drydocks.

The economic shift towards the services sector, which is rapidly taking place in the highly industrialised countries, is also visible in Malta. The various services sectors are the following:

- The wholesale and retail sector has been marginally affected by trade liberalisation - as required both by the EU and Malta's membership of the World Trade Organisation. These included measures such as the removal of importation levies. The contribution to G.D.P. by this sector has gone down from 14.29% in 1992 to 11.07% in 2001. Employment in this sector amounts to 11.1%.
- The sector of insurance, banking and real estate has been experiencing advances in both employment income and profitability levels. This sector contributes 7.9% to G.D.P. and 4% of total employment.
- The community and business sector includes the self-employed professionals and all the persons employed in organisations offering services to the community. Over the last years there was a consistent increase in employment within this sector, currently reaching 10% of the total workforce. These include an increasing number of university graduates.

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<sup>31</sup> Until recently, the footwear and clothing industries were included in this category, with 2.6% of the gainfully occupied. Most enterprises left are local subsidiaries of international companies which are export oriented. Their problem is that of maintaining international competitiveness.

Apart from the traditional professions, the popular occupations among young graduates includes those in marketing, I.C.T., communications, media, social work, business management, accounting and financial services.

Although in recent years employment in the public sector in Malta has been gradually decreasing, it is still excessively large, with 33.3% of the total workforce. Of these, the majority (22.1% of total) are engaged in public administration. These contribute 15.1% of G.D.P. The rest are mainly engaged in publicly owned companies and independent statutory bodies including the public corporations providing water and electricity.

Finally there are the services related to Hotels, Catering and Recreation in connection with the Tourist Industry. This is an expanding sector and currently accounts for 9.6% of the total workforce and around 11.7% of GDP.

## **Industrial relations**

### **Basis for Malta's industrial relations**

The social basis for Malta's industrial relations system was established during the period of the British colonial administration<sup>32</sup>. The pioneering role played by Britain in industrialisation - with its worldwide trade and defense commitments – assimilated Malta within the imperial network and turned it into an important Mediterranean outpost for the execution of its global strategy. As a result, Malta became exposed to a wide range of industrial attitudes and experiences at an early stage when compared with other neighbouring countries. These attitudes included a liberal-pluralist political ideology and a perception of private enterprise as the main motor for industrial development. Concomitantly, the Maltese workers acquired aspirations for a regulatory framework of industrial relations – including the establishment and recognition of free trade unions, the establishment of employer organisations, and a legal framework for the protection of employment and the settlement of industrial disputes.

Nowadays, after almost four decades of independence, the influence of British institutions is still evident in many areas of social, political and economic life. This is particularly the case in industrial relations policy, which continues to be modelled on that of Britain within a European context. As a result, the established model of industrial relations in Malta is that of voluntary, bi-partite, collective bargaining at the enterprise level in a traditionally polarised relationship between employers and trade unions. Additionally, in recent decades, there has been a parallel development of corporate, tri-partite, bargaining at the national level based on a social partnership model. This pattern is emerging in response to shifts in the balance of economic power as well as in response to economic exigencies such as the need to retain jobs and to attract foreign investment in a competitive, international environment, which is limiting the range of collective bargaining

### **Social dialogue**

The institutions comprising the tripartite framework of labour relations are firmly established in Malta. Through their roles in collective bargaining at both the national and the enterprise levels, the social partners – both individually and collectively – play a vital part in determining national social and economic development. This is partly due to established tradition and even more to the

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<sup>32</sup> Malta formed part of the British Empire between 1800 - 1964.

relative power of the social partners in the economic, social and political spheres. Even more than legislation, the chief means by which labour standards are established is through collective bargaining.

In 1990, the Malta Council for Economic Development (MCED), a tripartite body was set up by government in agreement with and the participation of all the 'social partners'. One main aim of this Council, soon after its establishment, was to draft a national incomes policy, which was seen as an important means towards attaining industrial peace and economic growth. An initial agreement for three years was reached but this was not officially renewed when it expired as the various parties, wanted to introduce important changes to it. In particular the General Workers' Union, mounted a campaign against the increasing taxation levels and cost of living which, it argued, was not being adequately compensated through the statutory wage increases granted under the National Agreement. As a result, a tripartite board was established to oversee and determine the retail price index.

On the union side, the United Workers' Union (UHM) embarked on a campaign against what it regarded as the 'anti-social' increases in water and electricity rates that were introduced in 1998. It also argued that the government should introduce tighter controls against tax evasion.

For their part, the employers argued against the practice of statutory, across the board, cost of living increases which, they believed, should instead be negotiated through collective bargaining.

Under these circumstances, discussions within MCED were leading nowhere and a common complaint was that the Council was 'merely a talking shop'. While all the parties agreed on the need to retain the Council, they were demanding action by government to remedy the situation. This demand was reinforced by the EU Commission's emphasis on social dialogue as an integral part of its employment strategy.

In 2001, following a series of consultations, government introduced a new Act institutionalising the Malta Council for Economic and Social Development (henceforth: MCESD). The newly shaped Council now incorporates, as a separate but related organ, a forum for civic society, which includes: 'those organisations established to seek the common good and whose main aims are neither to generate profits nor to seek executive power.' The idea is to widen both the representation and the range of issues falling under the Council's jurisdiction. The Council is currently still in a process of adjustment to its new role. It is still building its own research and administrative infrastructure in order to be able to carry out its functions properly. Its resources, though still very limited, have increased substantially.

One interesting development during the last two years has been the readiness of the social partners to enter into serious discussions with government in preparation of its annual budget. The declared Government's policy is to seek consensus among all the partners rather than to impose its will through legislation. Nevertheless, this policy is being put to a severe test mainly due to the higher taxation and other unpopular measures which Government is constrained to implement in order to reduce its fiscal deficit and bring it in line with the EU standards. In the meantime, it is becoming increasingly clear that a positive disposition on the part of the social partners is not by itself sufficient for the practice of EU social dialogue to function effectively. What is also required is a

process of learning of the new roles and expectations both on the parts of the main actors and of their constituents.

### **Conclusion: Towards a National Development Plan**

Meeting the economic challenges, which the country currently faces, is likely to cause a significant upheaval in the labour market and in employment practices. It is argued that such an upheaval is inevitable if the country is to meet the challenges of globalisation, new technology, the WTO, and particularly, the EMU criteria to which Malta is committed. The repercussions of this upheaval are also likely to have an impact on the social and political spheres.

The urgency with which the necessary adjustments are being implemented by government and the accompanying social upheavals are perceived by some as possibly outweighing the remote and uncertain advantages of EU membership. As a result, there is certain wariness among many Maltese workers and their leaders about EU membership. To these, must be added the preoccupations about the loss of sovereignty and national identity, and the uncertainty surrounding Malta's neutral status which is firmly embedded in the Constitution.

Under these circumstances, it appears that the only way through which viable solutions to the existing challenges may be sought is through a renewed, positive commitment to social dialogue among all three social partners. Despite all declarations to the contrary, such a commitment has hitherto proved elusive.

To sum up the following main points are highlighted:

- The recent establishment of the Malta Council for Economic and Social Development has provided the necessary legal and institutional basis for the development of social dialogue. Nonetheless, the system is still encountering some serious problems - particularly the harmonisation of the formal and the informal levels of interaction among the social partners. This problem has its roots deeply embedded in Maltese culture and reflects the traditional 'colonial' mentality.
- The social partners have a critical role to play. It is necessary to clarify the exact role of each partner – including the role of government. In order to perform this role, they need to build trust in each other. A basic, legitimate question is whether all the social partners have the necessary will to seek *national* solutions to *national* issues. This partly depends on their ability to avoid getting detached from their constituents. To succeed in this task, they need to design a developmental process and to follow an agreed plan of action.
- The development of an effective national social dialogue institution in Malta is a necessary condition towards finding viable, widely acceptable solutions to the socio-economic and political challenges confronting the country. In order to meet the EMU deadlines, the institution of social dialogue has to function effectively.
- Once the necessary, basic structure has been established, an effort must be made to ensure that the social dialogue institution functions effectively, on the experience of the best practices in other EU member states. This involves the assignment of formal responsibility to an agency for the development of a social dialogue culture. The aim would be to constantly monitor and guide the process on the basis of independent, action research and focused educational programmes.

This activity should be independently funded through both local and EU sources and be included as part of a national development plan to be agreed upon and developed by and for the social partners.

*Author's note*

The author gratefully acknowledges the contribution made to an earlier draft of this paper by Dr Romina Bartolo, Ms Elaine Bonello, Mr Mario Cutajar, Mr Joe Delia, and Mr John Scicluna.

# Social dialogue and EMU in Poland

# 4

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Poland continuously pursues policies aimed at fighting inflation and limiting the budget deficit. Such a policy did of course give rise to social protests in the past and its main advocate, Leszek Balcerowicz, is disliked by the trade unions. However, certain goals have been reached and this has brought the Polish economy closer to achieving the so-called Maastricht economic convergence criteria. It must be noted, though, that Poland is a country of turbulent transformations, hence it is difficult to predict what will be the effects of governmental decisions, and especially what will be their consequences, viewed over time. Entry into the economic and monetary area of the European Union appears to constitute an opportunity to find a stable reference point for the changes taking place.

Specialists and politicians are holding discussions whether it would not actually pay for us to unilaterally introduce the euro as the only legal means of payment in the country<sup>33</sup>. Technically this would be secured by the large Polish international reserves (26 bln USD) but such a move bears all the signs of a shock therapy, something the Polish society has actually endured but, like all shock therapies, it is not liked. It is also probable that society would no longer put up with further shock therapies. Continuation of any shock therapy whatsoever in Poland will meet with even greater dissatisfaction and will result in the victory of such social groups in Poland in the next parliamentary elections that draw upon radical populist rhetoric. The sum of shock therapies applied in Poland since the beginning of the 1990s is at the moment creating a critical mass that is not balanced by a similar critical mass of positive changes in the economy, meaning a better economic condition of households.

Poland has not achieved all Maastricht economic convergence criteria to date but it is important that the efforts are continuous and there are already certain successes that can be noted in this area. This paper presents a few data from recent years relating to these criteria, as well as certain government plans.

**Table 1 The Polish economy and Maastricht convergence criteria**

Maastricht criteria	1999	2000	2001	Plan 2002	Plan 2003
Inflation	7.3%	10.1%	5.5% - 73.6%	1.7 - 1.8%	2.3 %
Participation in ERM	Actual presence in ERM +/- 15%	Release of the currency exchange rate	Release of the currency exchange rate	Release of the currency exchange rate	Release of the currency exchange rate
Long- term credit rate			9%	8%	6%-8%?
Budget deficit as % of GDP	-2.0	-2.2	-4.5	-6.3	-5.9
Gross public debt as % of GDP	44.7%	41%	41%	47%	50%?

\*As interest from ten-year bonds (floating exchange rate).

These indicators are practically mutually interrelated. This limits the possibility of governmental manoeuvres. The government can have a direct influence on the gross public debt as well as the

<sup>33</sup> The stand that favours unilateral introduction of the euro on the Polish territory is contained in the article: Andrzej Bartkowski, Jacek Rostowski – 'Unilateral introduction of the euro by countries aiming at European Union membership – macroeconomic aspects', in: *Ten Years after Transition and Growth in Post Communist Countries*, Case, Warszawa, 2000. The stand that objects to this was expressed in the paper prepared by Karol Lutkowski; 'In search of the optimal strategy for Poland on the road to the euro', presented on the internet pages of the National Bank of Poland: [www.nbp.pl](http://www.nbp.pl).

size of the budget deficit. In reality, the Polish Government agrees to budget deficit increases in response to social pressure, mainly coming from the public sector but also in order to support economic growth (e.g., infrastructure expenditures). The discussions held in recent years also point out that previous governments have been unable to stop the outflow of public funds into relevant agencies that spent them in irrational ways and facilitated the take-over of part of their assets by private companies.

### **Political situation**

The political situation seems to be stabilised, and in this sense, the government that was formed after the parliamentary elections of 2001 is founded on a clear majority and – judging from the experience of the previous parliamentary term – may last for a long time, even with a minority formula and even with considerable social dissatisfaction.

**Table 2 Political parties and their seats in the Polish Parliament (15 August 2002)**

<b>Political parties</b>	<b>Seats in Parliament</b>
Democratic Left Alliance (SLD)	198
Citizens' Platform	57
Self-Defence	49
Law and Justice	43
Polish Peasant Party (PSL)	41
Polish Families League	37
Labour Union	16
Folk-Conservative Party	8
Folk-Democratic Party	3
Non-united	8

The government coalition is formed by the Democratic Left Alliance – a party that is based on social-democratic values that clearly benefited from the wave of dissatisfaction with the government of the Election Action 'Solidarity'. This government coalition is formed together with the Polish Peasant Party, currently a small party strongly established in the rural environment and tailoring its policies to the rural electorate. The third party in the coalition is the Labour Union, a small party strongly oriented towards social-democratic values, articulating very matter-of-principle criticism in relation to the Democratic Left Alliance. The membership base of all these parties clearly favours increased redistribution of the state's policies, state interventionism in the economy and an increase in public spending to protect certain social groups that are experiencing particular problems, for example: farmers, workers of large enterprises, employees in regions that are threatened by the consequences of restructuring, the unemployed, pensioners, young families, etc.

It is a government that advocates social democratic values but in practice this is not of huge significance. Almost all political groups in Poland, after coming into power, have to pursue a middle-of-the-road policy: continuing privatisation, strengthening institutional market mechanisms, introducing unpopular reforms of the public sector, supporting economic progress and preparing the country to meet European Union accession requirements. The balance of power between the so-called right and left side of the political scene appears to have been quite even in the long run. At the same time, however, as in other countries of the region, there are extreme political parties which criticise the current political system and the country's elite, for example



'Samoobrona' (Self-Defence) and Polish Families League. These sit in Parliament and their leaders express their objections against Poland's entry into the European Union, call for wide state interventionism and blame politicians for robbing the fatherland. During a social unrest, it is possible that they could take over the public and political initiative.

## Industrial relations system

The system of collective labour relations must be regarded as being the type based on a strong social and institutional foundation. Part of it is comprised of legal foundations of the work of independent trade unions, employer associations, strikes (but not lock-outs), and mediation and arbitration procedures, procedures for entering into collective labour agreements. This system is accompanied by a number of infrastructure institutions: Governmental agendas, labour courts, the state labour inspection, the trade union (social) labour inspection, state labour offices, numerous associations and foundations that support the struggle against unemployment.

### Trade unions

Trade union membership is not just a façade. It stems from the authentic needs of employees. Research suggests that 14% of the labour force belongs to trade unions, and this is evidence of a declining trend as compared to the beginning of the 1990s.<sup>34</sup> Trade unions estimate the union density to be at the level of 18%. A decline in trade union density is related to the privatisation of the economy: trade unions do not exist in the newly established private companies and in the public sector, trade union membership has decreased as a result of a decline in public sector employment. Trade unions are strong in large enterprises, while in the small and medium enterprise sector they are almost non-existent. Worker's councils, strong in the 1980s and 1990s, and active in the state enterprises, have disappeared together with privatisation. In 1997, among those declaring trade union membership, 47% mentioned the Independent 'Solidarity' trade union, 28.8% the All-Poland Trade Union Agreement (OPZZ) and 24.4% mentioned other trade unions<sup>35</sup>. It is the public sector that is the stronghold of trade unions – the state enterprises and companies of the state treasury.

Politically, ideologically and organisationally, the trade union movement is divided into two parts. The 'Solidarity' trade union is a compact, centralised structure, currently with 900,000 members, organised in so-called regions and branch sectors. In its ideology, it refers to the Catholic social science. However, taking into account the historical roots of this trade union, its members usually represent an independent stand on many issues at the level of the workplace. The nation-wide (All-Poland) Trade Union Agreement (OPZZ), also with 900,000 members, is a federation structure, loose and difficult to manage centrally. A number of federations and national unions form part of the OPZZ and these structures are stronger than the territorial structures of the trade union. In its ideological beliefs, OPZZ presents itself as a left-wing trade union, but in practice, at the level of the workplace, it is rather a pragmatic union that favours cooperation with employers.

Over the past few months, there has emerged a new initiative called Trade Union 'Forum' that aims at becoming a federation of those trade unions that do not belong to the existing nation-wide organisations. It is supposed to unite 18 sector trade union organisations: railway workers, nurses

<sup>34</sup> Report 'Czy Polacy chcą euro?', CBOS, 17 czerwca 2002, [www.cbos.org.pl](http://www.cbos.org.pl).

<sup>35</sup> Bogdan Cichomski, Pawel Morawski, 'The General Polish Social Survey. Structure of Accumulated Data', Institute of Social Studies, Warszawa, 1998.



and midwives, heating company employees, road workers, the police, drivers, postmen, anaesthetists, engineers and public transport workers. It is estimated that such a confederation would include 390,000 members. The founders of the Trade Union 'Forum' believe that the model of free competition capitalism has not worked in Polish conditions and the choice for the future is 'wise state interventionism'.

### Employers

Employers are organised in a number of ways and are organisationally dispersed. The oldest National Confederation of Polish Employers has among its members employers from the public sector, employers from state enterprises and from state treasury enterprises. This is the earliest registered employer association. The employers that form part of it present a strategy of reaching agreement with trade unions. The second national Polish Confederation of Private Employers has members mainly from the private sector and those who run small and medium-sized companies. It represents Polish employers inside European Union structures. Recently, the Union of Polish Crafts adopted partly the status of an employer, rather a strong structure of those who work for themselves. The Union of Polish Crafts is an association with a very long tradition, reaching back to the nineteenth century. The Business Centre Club Employers Association – an association of wealthy businessmen, club-type – is an association active in the field of public relations for business in Poland. The National Chamber of Commerce, a powerful structure that unites branch chambers, came forward with an initiative to be registered as an employer association by the appropriate court.

**Table 3 Social partners in the Polish industrial relations system**

Social partners	Size / membership
All-Poland Trade Union Agreement (OPZZ)	900,000 members
'Solidarity' trade union	900,000 members
Trade Union Forum	390,000 members
National Confederation of Polish Employers	Employers for more than 300,000 employees
Polish Confederation of Private Employers	Employers for more than 300,000 employees
Business Centre Club Employers Association	Employers for more than 300,000 employees
Union of Polish Crafts	Employers for more than 300,000 employees

### Social dialogue

The TriPartite Committee for Socio-Economic Matters, a state-level social dialogue institution that exists since 1994 has been legally strengthened by a Parliamentary Act. No less than 421 out of 430 members of Parliament voted it in. In proportion to the number of members, the Committee comprises of: 'Solidarity' trade union, All-Poland Trade Union Agreement, the Confederation of Polish Employers, the Polish Confederation of Private Employers, the Union of Polish Crafts and, recently, the Business Centre Club. The Business Centre Club and National Chamber of Commerce also aspire to the Tripartite Committee. The Minister of Labour chairs the committee. The Act states that similar tripartite committees will be established at regional levels. The Tripartite Committee as a consultative body deals with economic policy, the labour market, social benefits and wages, social insurance and of course, also with the development of social dialogue and changes in the labour law. The first works of the Committee dealt with the Budget Act for 2002 and the so-called budget-related acts.

Where there are trade unions, collective agreements are concluded. Since 1995, there were 11,000 such agreements concluded, of which 8,000 are in force today. A large proportion of employers do not adhere to the clauses of the agreements (up to 50%). Employers in smaller companies prefer one-sidedly to announce the Work Rules and Remuneration Rules: you do not have to negotiate them with trade unions and changing them is easy.

Sectoral-level collective agreements are a very weak social dialogue institution in Poland. In reality, there exist 10 sectoral collective agreements, five in multi-national companies and three in the public sector. Only the Confederation of Polish Employers counts among its members organisations that have signed these agreements.

The development of social dialogue is made difficult due to the overall recession climate in the private sector and the budgetary limitations in the public sector. On top of this, high unemployment (18%) makes the atmosphere of dialogue in the Tripartite Committee very difficult and the parties unwilling to compromise. The employers interpret the signing of any agreement whatsoever as a lasting obligation that will be hard to fulfil in the difficult economic situation. It is only recently that a solution was adopted that in practice makes it possible for employers to withdraw from the agreement, so maybe this will weaken their dislike of collective bargaining. The new regulations relating to the public sector might also influence a greater inclination towards collective bargaining.

The system of industrial relations is politicised: trade unions are 'attached to' or support 'their' political parties, games take place in Parliament concerning the shape of labour relations; before appropriate negotiations commence between the social partners. These social partners have the illusion that an appropriate Parliamentary Act will secure their interests. The Solidarity Trade Union is at present in opposition to the Government. OPZZ is attached to the Democratic Left Alliance as a result of the many years of cooperation, but is trying to keep its distance from some governmental proposals and in that way to exert pressure, especially as far as the intentions of liberalising the Labour Code are concerned. Employer organisations lean towards the Citizen's Platform but they also are influential with the Democratic Left Alliance.

### **Industrial conflicts**

Strikes have been used relatively rarely during these past years as a tool for exerting pressure. They take place in the public sector. A few cases of strikes in the private sector occur when companies are being closed down, these are wildcat strikes, often combined with other forms of protest (hunger, demonstrations, road blocks or blocking public buildings, protest marches). All strikes are of the occupational type because that is the strike tradition in Poland. The figures below that show a high number of strikes in the year 1999 stem from the fact that the Trade Unions of Nurses organised at that time a nation-wide protest in defence of real wage levels. The decline in real wages was brought about as a result of the public health care reform. The small number of strikes does not reflect the atmosphere in employee environments: strikes are simply perceived as a tool that is ineffective in achieving one's own rights.

### **Maastricht criteria and the economic context of social dialogue**

From among all the Maastricht criteria, it is the budget deficit that is the most sensitive problem. Expenditure cuts in the public sector are immediately and directly reflected in the condition of professional groups employed in public sector institutions. The public finance crisis of 2001 made

the government withdraw from the expected indexation for public sector employees for a period of two years.

**Table 4 Strikes in Poland 1990-2000**

Years	Number of strikes	Employees on strike in a given section (%)
1990	250	1.1
1995	42	0.2
1999	920	0.3
2000	44	0.1

The most striking conflict occurred in the healthcare sector two years ago. The public health service reform and the cutting of funds going into this sector resulted in a deterioration of the economic condition of nurses and midwives. They organised numerous local strikes and a nation-wide protest by occupying public buildings and organising street blockages. The government negotiated with them and this led to a deregulation of labour relations in this sector. However, this did not solve the problem. In this case, it is not possible to talk about an effective social dialogue.

Budgetary limitations also mean an end to subsidising companies and sectors that produce losses. Such a move will directly affect the economic condition of those labour groups that are characterised by a high degree of trade-unionisation, since it concerns industrial sectors in the sector of state enterprises or companies of the state treasury. Experience teaches us that these groups are capable of organising social protests, therefore social dialogue is necessary and in this case, it is a dialogue with an active role for state bodies.

The government has also made many changes in the central administration by closing down certain government agendas. Whether these changes were real and whether they will in fact decrease employment in central administration and its expenditure, will be seen after assessing execution of this year's budget. These changes were not subject to social dialogue.

Budgetary expenditure cuts for local governments were also not discussed, not even in the forum of the Tripartite Committee, although they do affect the economic condition of teachers employed mainly by local governments, and the economic conditions of all other local government administration employees. The numbers of tasks that these governments have to perform are growing and this is not accompanied by appropriate budget subsidies.

Budgetary expenditures are also being cut in such a way that the government is trying to decrease social benefit expenditures. Access to different types of benefits is being limited, their levels are decreasing or they are re-valued with a certain delay. The most obvious example of this is that only 20% of the unemployed are on the dole, with its substitution indicator in relation to wages amounting to 23%. Trade unions are of course negatively disposed towards such steps and interpret them as a deprivation of vested rights.

Aiming at low inflation ceased to be regarded as significant at present, because over the past years, inflation has declined drastically. Inflationary supplements, the so-called wage indexation that trade unions had successfully struggled for, are no longer as important as a few years ago. Also the business environment no longer expresses understanding of anti-inflationary policy: the opinion

that prevails here is that such a low level of inflation is rather an indication of the cooling-down of the economy. A few years ago, fighting inflation was interpreted as being the fundamental condition for running a business.

The workforce is not particularly interested in long-term interest rates, since this indicator reflects rather the price of capital. The exchange rate, however, is a matter of interest for the workforce. Following the Russian crisis, Poland freed the local currency exchange rate. In the opinion of commentators, the Polish zloty is currently too strong, pointing to the perspective of Poland's accession to the European Union, making the zloty an attractive investment. The attractiveness of this is strengthened by the Government public debt policy – the issuing of long-term state treasury securities with a high stable interest rate. A strong zloty contributes to the relatively low level of competitiveness of Polish companies. Trade unions are slowly starting to understand the relation between the low competitiveness of companies and stable employment.

The government, in deciding to maintain a relatively high budget deficit, and to increase public debt to finance this deficit, is acting under trade union pressure. It also wishes to devote money to important purposes (e.g., construction of the economic infrastructure, strengthening of courts, improvement of public safety).

### **The main social problems in labour relations in Poland**

The fact that the social partners hold on to their significantly different stands with regard to the main social problems makes the achievement of any social agreement extremely difficult. Aiming at achieving the criteria of economic convergence means aiming to achieve a strong, healthy economy based on solid foundations. In Poland, this has become possible thanks to the wide privatisation process and the opening of the economy to outside markets.

The strategy required at present is one that aims at increasing the competitiveness of the Polish economy, i.e., facilitate utilisation of those resources that constitute its trump card.

The attitude represented by employers puts the emphasis on a cheap labour force that could constitute a certain positive resource as well as the potential to take over those production areas and services that are being abandoned by the more developed economies. Hence, this focus is placed on the development of the periphery and of taking advantage of the gaps created by the European and the world economic system.

As a result of this, the thesis put forward in employer circles is that the costs of employment are too high, and the labour regulations do not offer the assurance of a satisfactory level of workforce mobility required during the period of economic restructuring and growing competition. These arguments are only partially shared by the trade unions. They point out that the Labour Code does in fact offer the possibility for flexible arrangements of employment contracts. This corresponds to the expert opinion of the World Bank research group, which described the flexibility offered by the Polish Labour Code to be within the boundaries of the average regulations in force in the European Union Countries.<sup>36</sup>

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<sup>36</sup> Riboud Michelle, Silva, Jauregui Carlos, Sanchez- Parmo Carolina, 2001 – 'Does 'Eurosclerosis' have an effect? Institutional Reforms and the situation on the labour market in Central and Eastern Europe in the 90s', *Rynek Pracy*, no. 9 (117).

The second argument expressed by employers relates to high labour costs, especially in the case of an employee who is sick or defending him/herself from being given notice. The expert opinion of the World Bank research group evaluated that in Poland it is in fact only the extra-salary labour costs that are high. Those who are in employment, through the taxes that they pay, must support a relatively large group of pensioners, handicapped and the unemployed. Hence, the fees and salary taxes are high and they constitute a considerable burden for every employer.

Both these issues, i.e. more flexible forms of employment and extra-salary labour costs, are the subject of social dialogue within the Tripartite Committee at the national level. This dialogue, however, is of a superficial nature, as the social partners present rigid stands and try to achieve their goals outside of the social dialogue process, mainly in the political arena by gaining the support of political parties, members of parliament and by exerting influence on public opinion. However, the power arrangements in the political arena do not clearly favour the employers or the labour force. Public opinion does not seem to be absolutely convinced of the rights of any one of the social partners. Therefore, in practice, we are dealing with such a specific situation that in spite of an 18% unemployment level it is difficult to reach any kind of agreement. Such a partly agreement has been reached this year and this has been evaluated as the success of the Ministry of Labor.

The main social problem – as perceived by trade unions – is to maintain jobs at the moment and fight the causes of unemployment. Unemployment of the younger generation, in particular, constitutes a serious problem. Trade unions are of the opinion that it is the government that is responsible for unemployment, because it does not protect the local market against imports from countries that subsidise heavily certain types of production and that apply very strong protectionist policies by way of export subsidies. Trade union activists point to the examples of European Union countries, the United States, Japan and China.

It is a fact that the number of young people entering the labour market has been very high during the past years. In the years 1974-1985, there were over 650,000 children born every year, most of them in the years 1979-1985. As a result of this, the population of 20-year olds amounted to over 690,000 in the year 2000, over 690,000 in 2001, 700,000 in 2002, 720,000 in 2003, 690,000 in 2004. Of course, a considerable number of 20-year olds are still studying at universities or other schools. The scholarly coefficient of the tertiary education level amounted to 40.7% in the year 2000, following a dramatic increase from a level of 11% in the year 1995. The increase of the scholarly coefficient took place thanks to increased family expenditure on education and not as a result of increased public expenditure.

Unemployment among graduates and the young generation is still very high, reaching a level of over 40%. Such a high unemployment indicator among the young has negative psychological, social and economic consequences. Young people in their productive years are much better educated than the generation of their parents: the proportion of young people with higher education is 2.5 times higher than that of the generation of their parents. Their education profiles are more suited to the needs of a market economy than the profiles of their parents' generation that were trained to meet the needs of an economy based on planning. Young people are learning foreign languages, using computers, functioning from the very beginning in a society that is more open and governed by principles of economic activity. From the start, they are better prepared for the market economy than their parents.

The young generation in Poland remains an unutilised valuable resource. If it stays that way, it will remain a burden to society, and especially to families which have invested in their children's higher level of education. The families are forced to continue to support them because there is no work for them.

Focusing on the unemployment of the young calls for abandoning old arguments in which social partners had locked themselves into and which are at present the subject of a conflict of a symbolic nature (for example, the issue of Labour Code amendments). Addressing a new matter might bring the parties closer together, especially if they are united in the desire to solve a common problem.

### **'Social Pact for the Young' programme**

A programme is needed that would create jobs for young people, a programme that would be agreed upon by the social partners. Each of them is in possession of some resources, and, therefore, is able to support this programme in different ways. With regard to its concept, it is based on the standards formulated in the Amsterdam Treaty. A 'Social Pact for the Young' is needed in the sphere of employment and job creation. The manner in which it will be developed and negotiated by the social partners shall offer a basis for setting in motion complex activities aiming at greater social mobilisation of the young generation.

The professional activation of the young is the most valuable plan of action from the perspective of economic stability. First, the benefit of such a solution is that young people in their first job do not get 'dequalified', but the contrary: as a social resource, they gain professional experience and increase their skills level, becoming thus an even more valuable resource. Their qualifications, skills, talents, motivation become a positive element of the labour market. They become financially self-reliant and cease to be a burden to their families and the state budget. Apart from this, they pay taxes and pension fees, they make investments relating to lifestyle and further their education and they spend money on the consumer market. Employing them means working towards a stable future, stable progress. Employment of the young is a safeguard against the development of numerous pathologies, increased crime among the young, being affected by extreme ideologies.

The Social Pact for the Young should be comprised of four pillars of actions:

1. a component of creating jobs for graduates
2. a component of creating occupational training for graduates
3. a component of creating places of work that the young people get involved in as self-employment
4. a component of developing the labour market infrastructure

These components are addressed to different groups within the young workforce, mutually supporting and supplementing themselves, and all of them together help young people to operate on the labour market, increasing its clarity, strengthening tendencies of mobility and entrepreneurship.

#### 1. 'Creating jobs for graduates'

Young people who are trying to enter the labour market for the first time are faced with significant problems relating to acquiring appropriate practical skills concerning the labour market



competition. Although it is true that Poland recently introduced a reform of vocational education that aims at better preparation of graduates for the needs of the dynamically changing labour market, it will take time before the effects of this reform will bear fruit. Young people need job experience, especially in a valuable job environment. In recent years, a 'Programme for Graduates' was implemented in Poland, some components of which turned out to be quite effective (e.g., graduate contracts). However, the range of this programme was rather limited. Such a programme should include practically every unemployed graduate for a period of more than six months. This objective was created in relation to all those unemployed within the framework of the 'National Strategy of Growth in Employment, Development of Human Resources in the years 2000-2006', but its implementation was insufficient due to limited means/funds. This also means that the professional employment services need to become stronger, and that there should be individual cooperation with the best companies in a given region.

In Poland, there exist a number of proven, specialised forms of actions aimed at unemployed youth or graduates. However, they do not include all the unemployed youth systematically. Among such activities, there are:

- year-long training scholarships for unemployed graduates;
- year-long job experience scholarships for unemployed graduates;
- graduate contracts that assume that the employers are partially refunded with the costs of employing graduates;
- scholarships for post-primary education for graduates residing in regions threatened by structural unemployment;
- financing interventionist work addressed to graduates;
- financing public work addressed to graduates;
- organising Youth Job Clubs which offer information about the labour market, assist in job-seeking, in preparing for the meeting with the employer and in preparing certain necessary documents (CV, letter of motivation), offering support by organising psychological support groups.

More frequently than is the case at the moment, Youth Job Clubs should act as a basis for a combined programme component addressed mainly at graduates. To begin with, there should be at least one in every *powiat* (*powiat*= medium-level administration unit), and the objective should be to have one Youth Job Club per thousand unemployed young persons or one in every *gmina* (*gmina*= lowest level administration unit). Such clubs should be run as has been the case so far, by different types of foundations, associations, trade unions, and student self-governing bodies. The staff could partially be based on the institution of voluntary work of young people. They should be specialised with regard to the different graduate groups. In their work methods, they should use the Internet and specialist advice also via e-mail.

### 2. 'Creating occupational training for graduates'

Graduates leave schools and universities with skills not accepted by Polish employers. This component of the programme deals in particular with graduates after the basic vocational education. The valuable occupational experience organised in the workplace would be the

opportunity for learning the work rules and directions, and what further training should be undergone. This occupational experience could be organised by the employer associations, who know who is the best employer in the community, who adopts the best organisational practice, and who is able to get in the most positive pattern of work.

Previous graduate training programmes are evaluated as profitable for young people. They very often lead to the decision to offer the graduate a job. The training is a proper opportunity for an awareness of the young person of his/her motivation, ability, genius and aspiration. Employers are often afraid to enlarge the field of business because of the lack of proper candidates for the job in terms of the competence and loyalty. The training gives the employer an idea of the future worker without any obligation towards him/her. If such training was organised by the employer associations, they would encompass more graduates.

### 3. 'Creating places of work that the young people get involved in as self-employment'

The second programme component would relate to young people creating workplaces and this would be in the form of activities that support their capability for self-employment. Certain elements of this programme already do exist within the framework of the Labour Ministry's programme 'The first job'. They include legal regulations, i.e., being released from the obligation to pay a pension fee for one whole year from the moment when the graduate had founded his/her own business/company. In university circles, there are also workshops organised for students and for graduates that are looking for advice on how to organise their own company. Participants of such workshops are introduced to methods that allow them to identify attractive market niches, they receive advice how in practice to establish a company and how to run it, taking into account the laws relating to running economic activities. They are also introduced to the principles of the financial construction of business plans. There still are not enough of these types of initiatives as compared to the needs. Organising 'Youth Entrepreneurship Centres' in every gymnasium as part of the Youth Job Clubs or as an independent structure would mean a continuous level of consultancy in this sphere. In particular, such centres could be established attached to employer unions, entrepreneurship associations or economic chambers, enabling the entire movement of employers to join in with valuable social activities aiming at fighting unemployment. Youth Entrepreneurship Centres could also be organised in connection with University Career Offices, in the form of Student Entrepreneurship Centres.

### 4. 'Developing the labour market infrastructure'

Strengthening social dialogue, especially on its lower levels, constitutes in itself an important infrastructure element of the labour market because it acts in favour of negotiations that are based on an understanding of interests that the employer and employee have in common. Other solutions included in the Pact are: Youth Entrepreneurship Centres and Youth Job Clubs, if sufficiently accessible, they would be a highly desired element of the infrastructure based on practical and expert knowledge, that is being dispersed where needed.

If the social partners would become involved in the running of the new or the more numerous Centres and Clubs, this would strengthen their position. The Government, and the Ministry of Labour and Social Policy in particular, would be financing a programme that it could control. The Trade Unions and other interested non-governmental sector organisations would be financially strengthened and also strengthened from the public relations angle. Trade Unions, by supporting



Youth Job Clubs, would be able to present their offer to future employees, young people, and their potential future members. Employer unions would be able to influence future employers already at the start of their business careers.

Organising interactive Internet pages to initiate contacts with the unemployed young and to continue working with them could support such a programme. Some advice could be offered based on the FAQ procedure.

### **Subjects of the Social Pact for the Young**

The 'Social Pact for the Young' calls for negotiations at different levels of social dialogue. As an initiative, it calls for dialogue on the state level because the Government would be a serious participant in formulating the principles and financing the programme. The Government needs in particular to make estimations, also concerning those postponed, long-term benefits of the Social Pact for the Young. Social dialogue on the level of *voivodships* (voivodship= highest level of administration unit) could become strengthened by the initiative being already taken on the lower level. The problem of additional elements of actions within the framework of a programme calls for trade union and employer organization negotiations, who have the human resources and the know-how about the way in which the labour market functions or the way in which to run a company. Only combining this into one resource body that remains at the disposal of the Government, the territorial administration, trade unions, employer unions, the non-governmental sector – would it produce a synergy effect in the form of a place where the young person may receive support – in the wide sense of the word – for his/her professional stabilisation. Each one of the resources that the social partners have at their separate disposal remains dormant, and only when combined can they produce a practical effect.

An important aspect of such cooperation would be experiencing the benefits that flow from it. This would strengthen the social dialogue that looks to the future, to the young generation, that prepares young people to be able to move around more efficiently on the market, to become familiar in recognising its mechanisms.

### **Stages of the Social Pact for the Young**

Necessary actions would include:

1. Holding a national seminar with wide participation of the social partners, on the topic of the common monetary policy of the European Union, its goals and ways in which the Polish economy can come closer to the principles of stable development included in this policy. Showing that the Pact for the Young can be an element of support for stable economic development, by mobilising the most valuable resources, such as the skilled numerous young labour forces and a more authentic social dialogue. Critical discussion of the Polish State of preparations to join the EMU and the Euro zone. Discussing the idea, whether the idea being in practice implemented in Ireland of devoting an additional 1% of taxes to unemployed youth is worthy of consideration
2. Negotiations relating to the possible input of social partners in the establishment of numerous Youth Job Clubs (YJC) and Youth Entrepreneurship Centres (YEC).
3. Founding local advisory bodies comprised of representatives of the interested social partners that would develop concepts of co-operation between the YJC and YEC in a given area.

4. Determining the input of social partners interested in the functioning of the YJC and YEC.
5. Training of voluntary workers and professional staff with regard to the form of actions.
6. Propagation of the idea of the Pact in vocational as well as higher education-level schools, in order to reach the young people before they leave school.
7. Commencing with the implementation of the programme 'Pact for the Young'.

### **SWOT analysis**

In case of planning some kind of actions, the SWOT-type analysis makes it possible to determine whether this action is worth undertaking and what might be lost if the given type of challenge is not faced.

#### ***Strengths***

These comprise strong points that speak in favour of undertaking a given type of actions, that is – the 'Pact for the Young'. A few elements might be regarded as the strong points. This is mainly the issue of the relative good level of preparation of the young generation to function on the labour market because of their qualifications, professional and social skills. As a result of this, giving up any attempts aiming at professional activation of the demographic peak generation would be a waste of the social and cultural capital accumulated inside this generation.

Another important strong point would be the combined experience of the social partners, meaning that they are currently involved in position games in the sphere of labour relations, the effectiveness of which is very low. During the period of the last 10 years in Poland, co-operation games concerning labour relations were avoided, social dialogue was conducted under Government control and trade unions and employers were internally divided in their aspirations and goals. There have recently been attempts to hold discussions and negotiations of a bilateral nature. They were broken but this means that trade unions and employer unions are beginning to recognise each other's significance and to assess that they can play an independent role in defining goals that they consider to be important. This is a good base for using social dialogue as a way to resolve important social problems.

#### ***Weakness***

These might cause disturbances in the social dialogue relating to the EMU and working on the concept of the Social Pact for the Young. Without doubt, the disarray of trade unions as well as of the social business organisations constitutes such a weak point. Trade unions are divided because of their different political options, tradition, experience and their own history. Employer organisations are divided as a result of personal ambitions of their leaders, each one of which is convinced that it is he who should lead the others. The position of the leaders is connected rather with controlling access to the political system than with economic resources. The weakness stems therefore from the necessity to reconcile different reasons and ambitions of all parties to the social dialogue.

The present budgetary deficit constitutes another internal weakness; the Government is cutting down on all expenditures that, in the Government's opinion, can be postponed till later. Among such expenditures, there recently are also those that aim at fighting unemployment and its consequences. Already in the past, ambitious plans to devote proportionally more money to active

forms of unemployment prevention than to passive ones were set aside. These active forms included spending on training, training scholarships, graduate job experience, loans for the unemployed, so-called special programmes, while the passive ones were unemployment benefits, pre-retirement benefits, and job agencies. Unfortunately the 5% increase in unemployment and the increased budgetary deficit halted the implementation of these plans. Expenditure on unemployment prevention among graduates and young unemployed is future-oriented. From the short-term perspectives of an annual budget, such spending may seem unnecessary.

### ***Opportunities***

These come from the outside and can be beneficial for running the business. Certainly the expected accession of Poland to the European Union is such a favourable external situation, as well as benefiting from the functioning of one large uniform market. This, however, is an expected opportunity that will take place in the future and it is difficult to interpret it as something realistic at present. It has a certain value as a partial solution to problems relating to employing the demographic peak generation. It constitutes a certain hope that is very much needed for collective actions because it gives meaning to the future. This hope contributes to weakening the radical attitudes among young people who seem to be waiting for better, calmer times.

This opportunity, however, is also a certain threat. The possible migration of young people to the labour markets of the European Union would be a loss of the capital that had been invested into these young people, including social capital; it would be a loss for the economy and for future generations. Especially the demographic peak generation of the fifties, that is the parents of the present demographic peak of the 20-year olds are afraid of the draining effect of the European labour markets, the young people leaving, ageing of society.

It is a certain opportunity that there exists within the European Union's system a pattern of handling serious social problems on the basis of social dialogue. Especially the way in which unemployment is dealt with in Ireland offers an opportunity that can be taken advantage of in order to solve the problem of mass unemployment, as well as other cases of agreements between social partners in EU countries with a pluralistic system of labour relations (e.g., France, Italy) similar to the Polish system.

### ***Threats***

These are external threats that refer to the phenomena of global scale competition and the economic relations between Poland, EU and Russia. Without doubt, Poland always tried to benefit from its central location in Europe. It was oriented towards the huge Russian market with its millions of consumers. Certain traditional industries such as textiles, food, shoes, cosmetics, furniture, entertainment were directed onto the Russian market and they secured thousands of jobs. The Russian market is interesting also for the European Union countries. In this sense, there is a collision of interests between Poland and the European Union, especially in the field of agricultural exports. Agricultural produce subsidies in the European Union make the Polish offer less attractive.

Generally, the threat stems therefore from the fact that the Polish economy is at present more open to the world market, and its companies are not competitive enough to protect their work places. If this situation shall continue, the level of long-term unemployment will continue to be high, also for the young generation.

***What are the stakes that make social dialogue concerning the creation of jobs worthwhile?***

The stake is to enable the young generation of Poles to work for Poland. The young generation always looks for a worthy life, and this means work that secures such a life.

Social dialogue relating to the creation of jobs is an answer to such expectations. The social partners have a unique opportunity to stop the defensiveness of their actions. In the process of the dialogue, they may work out or enrich a programme that will be beneficial to all parties to the social dialogue.

***Summary***

The short description of the programme in terms of what, why, who, when:

WHAT: Social Pact for the Young with three components: a component of creating jobs for graduates, a component of creating places of work that the young people get involved in as self-employment, component of developing the labour market infrastructure.

WHY: increasing the competitiveness of the Polish economy, by utilisation of the resources inherent in the young Polish generation.

WHO: trade unions, employers associations, voluntary associations and governmental agencies in process of co-operation.

WHEN: the stage of critical discussion focus on the Social Pact for the Young, the stage of negotiation the input given by the industrial relations partners, the stage of the training and mobilising the institutional resources of partners and stage of implementation of the programme.

***Author's note***

The basic ideas for this paper came into being during the Vienna Seminar 'Social Dialogue and EMU' organised by the European Foundation for the Improvement of Living and Working Conditions on 22-24 May 2002. The participants from Poland were: Edyta Doboszyńska, Związek Rzemiosła Polskiego, Agnieszka Juzwik, Ministerstwo Finansów, Wiesława Kozek, Uniwersytet Warszawski, Michał Olszewski, Polska Konfederacja Prywatnych Przedsiębiorców, Barbara Skulimowska, Ministerstwo Pracy i Polityki Społecznej, Sylwia Szczepanska, NSZZ Solidarność.



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## **Political situation**

At the end of the 1980s the major political groupings in Slovenia were the right-wing coalition, the Demos; the Slovenian Liberal Democrats (LDS), a mixture of market reformers and influential groups strongly oriented towards a model of social market economy; and the Associated List of Social Democrats (ZLSD), the reform-oriented former communist party on the left. The right-wing coalition won a majority in the first free parliamentary elections and formed the government. Being internally extremely heterogeneous and integrated by anti-communist stance, the coalition soon after the disintegration of communism faced problems. Controversies within the coalition caused new, second elections held in 1992.

In this election, Liberal Democrats won a relative majority and formed a wide coalition with reformed communists and some right-wing parties. Since then the strongest political party in Slovenia has been the Liberal Democrats. The party was returned to power after a third election in 1996, this time in coalition with the more conservative Peoples Party (LS). The coalition disintegrated in the spring of 2000 when a new, transitional right-wing coalition took power for a few months. After the fourth election in October 2000 the Liberal Democrats returned to power and formed a new wide coalition with reformed communists and Peoples Party.

Compared to the other 'transitional' societies the first decade of the Slovenian 'post-communism' was marked by a relative prevalence of the left-centre party (the Liberal Democrats – LDS), pragmatically assisted by smaller left and right-wing parties. In other transformational societies the left-centre and right-centre governments have frequently interchanged each other in power. At political level it was the most important peculiarity of the Slovenian transition.

## **Economic performance**

### **Transformational depression**

In common with other 'transitional' societies, Slovenia was faced with transformational depression at the end of the 1980s and at the beginning of the 1990s. Figures reveal a negative annual rate of GDP growth between 1988 and 1992 with the lowest point reached in the 1992. Compared to the other 'transitional' countries the depression in Slovenia was among less intensive.

### **Economic growth**

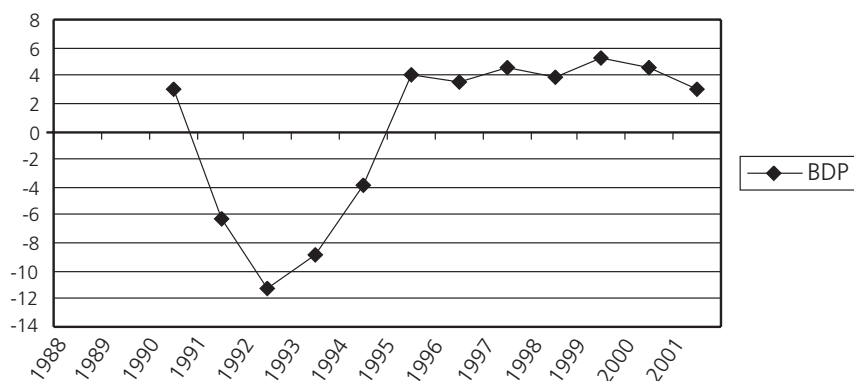
After 1994 the trends changed significantly. Thereafter the Slovenian economy has experienced growth rates of between 3 and 5%, exceeding the EU average.

The Slovenian per capita GDP is 10,000 USD, close to the per capita GDP of some less developed EU members. According to this measure, Slovenia is the most developed country in transition, reaching 70% of the EU average. Assuming 1% growth, GDP per head in Slovenia relative to the EU average should reach the EU average around year 2010. Under the same condition the convergence in all other 'transitional' societies will take much longer periods.

### Inflation

At the end of the 1980s the inflation rate in former Yugoslavia was extremely high. The highest rate (1,300%) was recorded in 1989. After introducing the Slovenian national currency in 1991, the rate was radically reduced to the level of 117,7%. Inflation grew in the year 1992 to 200% but thereafter it was successfully reduced, falling to below 10% after 1995. In 2001 the inflation rate was 8.4%. (Slovenian economic mirror 1/2002)

**Figure 1 Real growth rates of GDP**



Source: Statistical Office of the Republic of Slovenia

### Unemployment

Unemployment rate, measured by the ILO survey standards, reached the highest level of 9% in 1993 and 1994, later being stabilised below the EU average. In 2001 the unemployment rate was 6.4%. In comparative terms unemployment is not a huge problem in Slovenia in this moment.

### Wages and salaries

Wages and salaries grew highest in 1993 when real gross payment per person increased by 11.7%. After that the increases were around 5% per year, being below the productivity growth after 1996 (up to 2001). In 2001 real gross payment surpassed the productivity growth again, this time because of the increases of payments in public sector. Compared to the other 'transitional' countries Slovenian employees have been quite well paid during the last decade. Slovenia is certainly not a low wage economy.

### General government deficit and public debt

In the first half of the last decade Slovenia had a general government surplus, with the exceptional 1994 when deficit of -0.2% appeared. After the year 1997 deficit was around -1% per year. In the 90s the total public debt never exceeded one third of GDP (it was 21.0% in 1993 and 27.1% in 2001). (Source: Bilten javnih financ, IMAD).

### Real interest rates

At the end of the decade the interest rates were essentially lower than at the beginning of the 90s, but still remaining at a relatively high level (from about 20% in year 1992 to 6% in year 2001).

### Exchange rate

In 1991 Slovenia introduced its own currency. During the last decade the managed exchange rate's float was among the monetary policy's most important regulative mechanism.



## Accommodation to the Maastricht criteria

The presented data suggest that the Slovenian economic development was relatively successful in the 90s. The success was based on a very specific development pattern, which primarily integrated and mobilised internal Slovenian national resources.

The key conditions of the pattern were: firstly, the Slovenian formation into the nation state for the first time in its history; secondly, specific class constellations enabling a decade long continuity of the left-centre governments; thirdly, relatively privileged developmental starting-point.

Although the pattern was not explicitly formulated at the beginning of the transitional period, it early manifested some characteristics indicating its strong deviation from the patterns applied in other transitional countries. The Slovenian transition was characterised by gradual institutional transformation of the national economy, being combined by strong activation of a quite generous social policies. Contrary to the pattern of fast and radical departure from 'communism' which was based on radical coupon privatisation, strong inflow of foreign direct investment, liberalisation of capital flows and financial markets and restriction of social transfers and services (Phillips, Ferfila, 2000: 3), the Slovenian pattern contained privatisation which accentuated internal buy-outs and in accordance with that feature it limited inflow of foreign direct investments and focused on internal resources; it liberalised capital flow and financial markets very slowly; it stimulated social services and transfers more than reduced.

Among the most important factors of a relatively successful stabilisation and economic development in Slovenia was the monetary policy. At the beginning of the 90s it was focused on inflation reduction by controlling the money supply. Up to the mid 90s instruments and goals of monetary policy were fully developed and refined. The policy of managed exchange rate flow was exceptionally important for small Slovenian economy and its stability. Within the strongly socially oriented system the monetary policy could not be fully activated as an instrument of anti-inflationary income policy. Unemployment as a side effect of a more radical monetary policy was socially and politically unacceptable. This limitation opened the room for social dialogue and its institutionalisation at macro level (Phillips, Ferfila, 2000: 7).

In the second half of the 90s the monetary policy was preoccupied with achieving the Maastricht's convergence criteria. These include:

- i. low inflation;
- ii. low budget deficit (-60 % of GDP);
- iii. debt/GDP ratio (-3%);
- iv. low interest rate;
- v. fixed exchange rate (without devaluation) (Kauppinen, 1998: 10).

In the second half of the 90s the Slovenian monetary policy was focused on the reduction of the inflation rate up to the EU level. It was recognised as a key condition of a soft transition from the managed float regime to fixed exchange rate.

In terms of the Maastricht criteria the relatively high inflation rate (8.4 % in 2001) is still the main Slovenian problem. Generally speaking, Slovenia complies to fiscal criteria (general government



deficit and public debt), but does not meet monetary criteria (inflation, interest rate and foreign exchange rate) (see: Lavrac V. and Lavrac I.: Slovenia and Maastricht Convergence Criteria, IMAD Working paper, 12/1996, in: Slovenian Economic Mirror 6/98, IMAD).

In Slovenia the accession process was strongly accelerated after the signing of the accession agreement in 1999. The room for manoeuvre of its national regulation policies has been reduced in that process. Part of the reduction is abandonment of the relatively successful monetary policy: accommodation to the Maastricht criteria, being supported by the national monetary policy, means abolishment of that policy. The result of these changes will be more direct and more intensive dependence of growth on 'exogenous foreign demand beyond the control or influence of Slovenia' (Philips, Ferfila, 2000: 15).

A national environment could react at a possible recession by changes in employment levels and/or by wage and price growth limitation. In other words, accommodation to the EMU system implies restrictions which confront employees' interests. Within the (accommodation to) the EMU workers are exposed to direct market pressures more than before (Knudsen, 1998: 44).

The pressures could provoke resistance; the employees' reactions could block and/or hinder the changes of this type. That is why the employees' interest organisations are becoming a key factor of national internal regulative and legitimisation processes.

Examples of the actual EMU members show that political exchanges between the social partners were the most important form of their adaptation to the EMU regime. In exchange for wage flexibility (or for more moderate demands for nominal wages growth), the trade unions reached guarantees concerning wage and price stability and 'substitutions' in form of employment growth and pension funds (Knudsen, 1998: 46). Generally speaking, the EU national collective bargaining systems in the 90s manifested elements of the 'beggar-my-neighbour' approach, being primarily focused on reduction of the wage growth. At aggregate level this type of wage dumping reflected in wage increases of only 1-3 % per year in the 90s. (Kauppinen, 1998: 35), compared to increases of 5% and more in the 70s and 80s. According to the analysed cases of accommodation to the EMU regime, the regime is a frame which accentuates the importance of the national industrial relations systems, collective bargaining and income policies. The EMU promote them into the key national regulatory mechanisms and, in case of recession, into the 'shock absorbers', which should secure the balance within the national economy (*The impact of EMU on Industrial Relations in European Union*, 1998).

The Slovenian industrial relations system is congruent with the described political and economical peculiarities. We will focus on development of that system in the 90s and its actual basic characteristics, especially on:

- strikes in the 90s;
- structure of the trade union scene in Slovenia;
- employers' organisations;
- basic features of the social dialogue;
- main characteristics of the Slovenian labour market.

In the concluding part of the report, according to the identified characteristics of the Slovenian industrial relations system, the possible type of reactions to the EMU context will be presented.

## Industrial relations

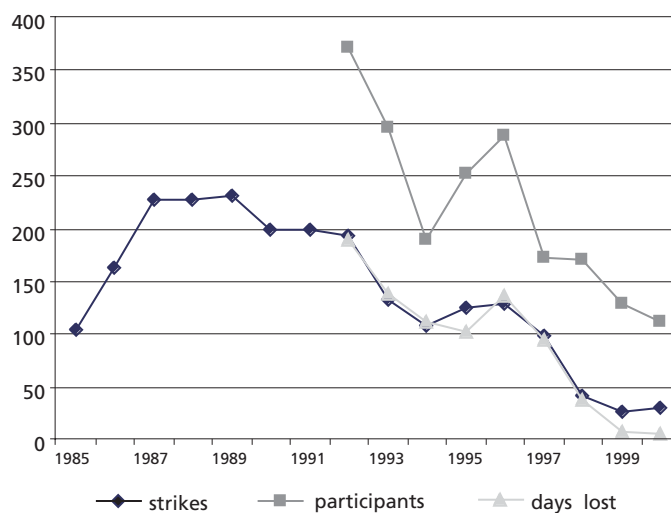
### Industrial conflicts

#### *Strike wave 1985-1997*

In Slovenia strike frequencies sharply grew in the second half of the 80s, being high at the end of the 80s and the beginning of the 90s.

In the year 1992 the wave reached its peak. In that year the frequencies were still high and average participation in strikes was highest in the twenty year-long period (probably the highest in the whole history of labour movement in Slovenia). According to the average participation of 372 striking workers these industrial actions were large, massive industrial actions in comparative terms, too. (see: Edwards and Hyman, 1995). Number of working days lost per 1000 employees was extremely high in that year being almost 40 times higher than in 2000. Immediately after 1992 the strike wave declined; it recovered in the period 1996-1997 and almost vanished at the end of the 90s.

**Figure 2 The strike wave 1985-1999**



#### *Causes of strikes and distribution between the sectors*

Basic causes of strikes in Slovenian companies are 'wage-related'. Analysis of the grievances of those involved in strike situations during the 1994-1997 period reveals that 84% of all strikes in that period were caused by dissatisfaction with wages. In two thirds of all cases workers went on strike because of late payment of wages, when payment was delayed for one month (30.2%), two months (19.9%) and even more (12.8%) (Poročilo o delu ZSSS, 129).

In the 90s strike density was highest in labour-intensive sectors, where the companies more often experienced huge business-related problems. In the period 1994-1997 the absolute number of strikes was highest in the metal and electrical equipment industry (188), then in textile and leather (103), construction (48) and wood-based industry (41) (Poročilo o delu ZSSS, 1998: 124).

#### *Conflicts in the service sector*

In the second half of the 90s when the strike rate in manufacturing industry was declining, strike activity in the service sector started to escalate.

Strikes organised by the doctors' trade union, FIDES, was a watershed of strike activities in the service sector. After that strike, revealing the doctors' union FIDES as a highly militant interest organisation, different groups of employees in the service sector went on strike (schoolteachers and employees in kindergartens, civil servants, judges from district courts, employees from universities and research institutions, railway workers, employees in air traffic control etc.)

During the second half of the last decade the most powerful interest groups in the public sector promoted themselves into the wage-setters in Slovenia. The doctors' pressures have caused huge problems and controversies between different interest groups in the public sector and between employees in the public and private sector. It is the main problem of social dialogue in Slovenia in this moment: the growing differences between payments in the private and public sector, causing (potentially) problems in income policies and pressuring the private sector (already exposed to the pressures on the international markets).

### **Social partners**

#### *Trade unions*

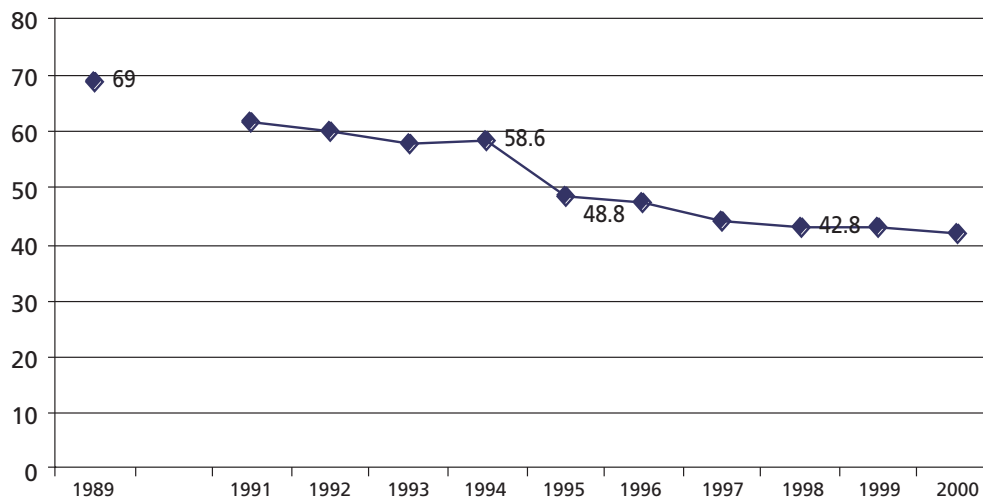
Compared to the early 90s, when ideological and political splits within the Slovenian trade unions scene manifested similarly in structure as its counterparts in most transitional Eastern European societies (MacShane, 1994: 337.367), from the end of the 90s above mentioned ideologically more neutral new cleavages (based on diverging interests of employees in manufacturing industry and public sector) have been more accentuated.

There are six trade union confederations in Slovenia: the Free TU (ZSSS), the Independent TU (KNSS), the PERGAM, the Confederation 90 (K-90), Alternative and Solidarity. The first four confederations were formed at the beginning of the 90s. The last two are relatively new being formed almost ten years later. The biggest one is the 'old reformed' ZSSS, which includes approximately a half of the trade unionised workforce.

Besides the confederations there are 17 autonomous professional and sector trade unions. Most of them are concentrated in the public service sector of the economy.

In the first half of the 90s approximately 60% of the Slovenian workforce were members of trade unions. In the second half of the same decade trade unions lost almost one third of their membership. The density rate had fallen to 42.8% of the workforce in year 1998 and kept the same level (41.3%) in the year 2000.

Within the trend of declining membership the 'old reformed' ZSSS preserved its leading position, with more than 50% of all union members throughout the 10-year period. In the second half of the 90s the growth of new unionism mostly within the service sector of the economy appeared. These were the only 'winners' of the past decade as, not only their share of total union membership rose, but they also did not lose their own membership. Generally speaking, all these smaller unions account for almost 40% of total trade union membership. Two phenomena characterised the Slovenian union scene - the concentration of membership in ZSSS on the one hand and the fragmentation into new professional and sector unions on the other (Stanojevic, 2000).

**Figure 3 Level of trade union membership, 1989-2000**

Source: Toš, N. in skupina: SJM 1989-1998

N=2040 (89), 2078 (91), 1049(92), 1044(93), 1037(94), 1016 (95), 1024(96), 2007(97), 1008(98); 1097 (2000).

In the 90s trade unions lost most members from the non-worker, better educated employees and middle and higher management groups, where there was no pressure from unemployment, but also from marginal workers who were under extreme pressure. The core labour groups (those with vocational schooling, machine operators) who were under severe pressure from unemployment remained union members or were leaving unions less intensively than the other groups. From general organisations which in the 80s had unselectively represented all 'working people', Slovenian trade unions have definitely changed into organisations representing workers in the 90s. (Stanojevic, 2000)

#### *Employer associations*

There are four employers organisations in Slovenia:

- The Slovenian Chamber of Commerce;
- Chamber of Crafts;
- Slovenian Employers Association;
- Slovenian Association of Crafts.

The most influential employers organisation is the Slovenian Chamber of Commerce (Gospodarska zbornica Slovenije). The chamber is based on obligatory membership and has functioned as the key employers interests articulator within the collective bargaining system from the beginning of the 90s. In the second half of the 90s it was gradually substituted by a new employers' association. The chamber is not an exclusive employers representation, but it is still the most important player on the employers side within the collective bargaining system. The chamber consists of 26 branch and 13 territorial organisations including about 50,000 firms.

Interests of small enterprises and independent crafts have been articulated by the Chamber of Crafts (Obrtna zbornica Slovenije). It represents 60,000 small enterprises. The majority of these

enterprises – two thirds – consists of micro, one-man, self-employed workforce. The chamber consists of 62 regional chambers and numerous sections.

At the beginning of 1994 the Slovenian Employers Association was formed (Združenje delodajalcev Slovenije). Compared to the Chamber of Commerce, the Association is a voluntary one. It includes 1628 companies covering 60 per cent of employees in manufacturing industry. The association is organised in 12 sections able to coordinate activities within the branch collective bargaining process. In co-operation with chambers it improved employers representation and bargaining position within the collective bargaining system on both, macro and mezzo levels. The formation of the Association was triggered by demands of ILO and other international organisations. From the 1999 it has been an observatory member of UNICE and has cooperated with European employers associations.

Immediately after the formation of the Slovenian Employers Association, a new interest representation of small companies (Združenje delodajalcev obrtnih dejavnosti) was formed. This association has 4000 members representing, in terms of workforce, the majority of small employers. It is organised in 13 territorial organisations.

The four organisations described partly overlapped. All members of the Employers Association are also obligatory members of the Chamber of Commerce. Similar overlap appears in the case of small employers. For once, all the above mentioned organisations are legitimate employers representatives and all of them are included in collective bargaining procedure. It is expected that a new act on collective bargaining, which is currently in parliamentary procedure, will remove the employers' representation in collective bargaining to the new voluntary organisations. (Stanojevic, M., Rajgelj, B. and Potočnik, M., 2001)

### **Social dialogue**

#### *The political exchanges*

The year 1992 was a watershed in Slovenia's 'post-communist' development.

Transformational depression reached the bottom in that year. It was shown that a powerful strike wave connected the late 'communism' and early 'post-communism' in Slovenia. During the last decade the wave reached its peak in 1992.

Exactly in that year, when the depression was deepest and the strike wave highest, the electoral body moved towards the left-centre. Liberal democrats (LDS) took the leading role in Slovenia.

From year 1992 the political exchanges between (left-centre) governments and organised economic interests are a permanent feature of the Slovenian transition. From that year the exchanges are a key mode of interest concertation, enabling adjustments of the market reforms to their social acceptability.

During the last decade the two relatively clearly differentiated periods of the political exchanges could be identified.

Within the first period (up to the 1994) the political exchanges were highly pragmatic and weakly institutionalised. In that period the political elite was involved in intensive, explicit as well as implicit, dialogue with clearly expressed social discontent of the core worker population.

The key steps of that first political exchanges' period were:

- i. activation of massive social transfers at the beginning of the 'transition';
- ii. law on privatisation from 1992;
- iii. radical wage and salary increase in 1993;
- iv. law on participation from 1993.

The political exchanges, being used also by first more right-wing 'post-communist' government, started with massive social transfers, mostly in forms of mass early retirement, later being combined and substituted by a wide definition of the unemployment status. Within this type of pragmatic exchanges also exceptional improvement of gross payments in 1993, which followed an extreme wage decrease in previous years, could be classified. All these exchanges were primarily focused on prevention and lowering of the social tensions, simultaneously securing the political support to the government.

The first strategic, symbolically most important political exchange between workers and the political elite was the Law on privatisation. The law was adopted in the 'critical' 1992. Strongly accentuating internal buy-outs in labour intensive sectors of the economy, the law literally promoted striking workers into the relevant co-owners of their companies.

The immediate 'anti-strike' effect of the law, combined by the above mentioned wage increase in 1993, was significant. Indirect result of that first strategic exchange was less visible and more important: combined with other pragmatic political exchanges, the law on privatisation laid the foundations of the Slovenian transitional pattern. It triggered transformation of the strike wave into the industrial relations system, which was, atypically for other transitional societies, strongly accommodated to the employees' interests. The result of these early, mostly pragmatic dialogues with worker discontent was strategic. The 'transition' into the socially acceptable type of capitalism started.

The second period of the political exchanges started in 1994 when the Economic and Social Council (ESC) was founded. After that the political exchanges got a form of more institutionally regulated tripartite dialogue. The ESC was established by the first tripartite agreement on wages in the private sector. The negotiations on the informal tripartite level started already in 1992, but the social partners were not yet ready to reach a broader consensus on topics like employment policies, social security, tax reforms etc, which have been included in the draft agreement.

ESC is made up of 15 members, five each from the government, trade unions and employers.

The first broad social agreement was signed in 1995, and another followed in 1996. The agreements reconfirmed collective bargaining system as an exclusive and basic instrument of both the formation and the implementation of incomes policies and all the obligations and rights coming out from labour relations. Since then the parliament has also demanded that all the acts pertaining to the interests of the social partners have to be accompanied by the opinion of the tripartite body before entering the parliamentary procedure.

In Slovenia the social agreements covers all the important social and economic areas such as social policy, health and safety at work, employment and unemployment, competitiveness etc., but still



the income policies remain the central issue. In the case when the partners could not reach a broader social agreement they normally at least agreed on the wage policy agreement. There were no formal agreements reached for 1997 and 1998 despite the very long discussion on the draft social agreement. At the end the government defined the wage policies by law, but even then considered the discussion with the social partners.

From 1994 up to June 2002 all together two broader social tripartite agreements and five tripartite agreements on incomes policies were adopted in Slovenia. The last one was signed in June 2002 (for 2002-2004) as part of the proposed broader social agreement for the period 2002-2005 which is still being discussed by the social partners.

Within the ESC the partners regularly discuss proposals of all the new labour and other legislation concerning the interests of social partners. The proposal of a new Labour Code, which will be in force from January 2003, has been exposed to a long debate. The proposal of new laws on collective bargaining and other systemic laws are regularly on the agenda of the ESC. (The discussion about the new pension system absorbed a lot of the energies of the councillors, too. This topic was on the Council's agenda under the pressure of a deep pension fund crisis caused by mass early retirements at the beginning of the 90s.)

### *Collective bargaining*

Compared to the other transitional societies a highly centralised collective bargaining system is one of the most significant features of the Slovenian industrial relations system.

The normative frame of collective bargaining system was defined by the basic labour code from 1989. Within this frame, at the beginning of the transitional period, the dominant bargaining level was fixed at macro level. Under the key parameters of income policies defined by government at this time, the new social players started to negotiate collective agreements. The unions were in great transformation, overloaded with internal conflicts. The substitution for employers association was found in the Chamber of Commerce.

The actual structure of collective agreements is as follows:

1. Two general collective agreements (for private and public sector);
2. Branch collective agreements and
3. Company collective agreements.

The two general collective agreements are the result of the dialogue at national level conducted by the main trade union confederations, the national employers associations and the government for the public sector. The branch/sector agreements are negotiated by branch trade union organisations and corresponding employers' associations. With the exception of company collective agreements, all others are valid under the condition of registration at the Ministry of Labour and Social Affairs. Thirty-eight branch collective agreements have been registered at the Ministry. Every year amendments (usually not very frequent) to these agreements are also registered.

The collective bargaining system in Slovenia is highly inclusive. Almost all of the total labour force is 'covered' by the provisions of collective agreements, at least with lowest standards defined in the

general agreements. The usual explanation is the role of the Chamber of Commerce in the bargaining system. Being obligatory members of the Chamber, Slovenian companies are obliged to respect the agreements signed by the Chamber. These and some other Slovenian specifics are connected with, in transitional societies quite unique, relatively centralised collective bargaining system.

#### *Highly regulated labour market*

The presented centralised and highly inclusive collective bargaining system is the most typical part of a dense institutional network, which strongly respects employees interests. The resulting peculiarity of the system is a highly regulated labour market.

The basic elements of high regulation are as follows:

First, within the last decade Slovenian wages, when compared to the wages in other 'transitional' societies, have been relatively high.

**Table 1 Average gross monthly wages in Slovenia and two 'transitional' societies, 1990-1998 (in DEM, average exchange rates) (%)**

	1990	1994	1995	1996	1997	1998
Slovenia	1453.14	1192.11	1354.89	1435.04	1565.90	1674.28
Hungary	343.53	512.13	442.85	461.90	531.85	554.46
Czech Republic	294.18	388.39	441.25	535.77	585.12	637.64

Source: WIIW 1999

Second, during the last decade relatively high job security has been preserved for the majority of the Slovenian employed workforce. Labour force surveys from the end of the 90s show that the portion of the Slovenian employees in open-ended contracts is still high. Approximately 70% of total employed population is engaged in that most secured form of employment (Ignjatovic and Kramberger, 2000: 454). According to the Eurostat data, the European employed population is included in that type of employment less intensively (European social statistics LF survey results 1999, Eurostat 3). Other data, being consistent with these findings, reveal comparatively weak labour force fluctuation and corresponding companies' closing vis-à-vis labour market (see Table 2). It appears that the Slovenian full-time employees tend to be 'job-owners' more than their counterparts in the other compared countries.

**Table 2 Has the total number of your employees increased or decreased in excess of 5% in the last three years?**

		EU	Transitional countries	Slovenia
Increased	N	266	94	4
	%	10.5	27.2	4.2
Same	N	2073	149	84
	%	81.8	43.2	88.4
Decreased	N	147	96	7
	%	5.8	27.8	7.4

Source: Cranet-E and Slovenian Survey 2001



Third, job security has been combined with markedly soft policies dealing with redundant workforce. These policies show accentuated social nature of the Slovenian ‘post-communist’ system. In spite of transformational depression and other problems, the reconstruction of the companies implied essentially softer policies than in other countries (see Table 3).

**Table 3 Have any of the following methods been used to reduce the number of employees?**

		EU	Transitional countries	Slovenija
Early retirement	N	2234	150	96
	%	37.1	27.0	49.0
Voluntary redundancies	N	2055	102	86
	%	34.1	18.3	44.1
Compulsory redundancies	N	1854	278	29
	%	30.8	50.0	15.1
Redeployment	N	2026	268	128
	%	33.6	48.2	65.0
Outplacement	N	862	93	41
	%	14.3	16.7	21.2
No renewal of fixed term/temporary contracts	N	2012	245	83
	%	33.4	44.1	42.1
Outsourcing	N	1134	120	73
	%	18.8	21.6	37.8

Source: Cranet-E and Slovenian Survey 2001

Fourth, as it was mentioned before, unemployment rate has been moderate in Slovenia in the 90s; in the second part of the 90s it stabilised at the level beyond the EU average unemployment rate.

In the context of the described political exchanges and the resulting socially oriented ‘transitional’ pattern, the nature of the moderate unemployment has significantly changed. At the beginning of the 90s, when public policies enabled workforce contraction (through early retirement schemes) and benefits for a widely defined category of unemployed persons, the Keynesian unemployment appeared. Because of the fast wage increases (as it was in 1993), the classic unemployment gradually substituted the first one. During the decade the government accentuated passive employment policies. It manifested as the third change in unemployment nature at the end of the 90s, when former classic unemployment was transformed, within the still moderate unemployment rate, into the predominately structural, long term unemployment. (Križanič, 2002).

#### *Dialogue at company level*

Comparisons of direct and indirect (representative) participation in companies from Slovenia and selected EU and ‘transitional’ countries show striking Slovenian peculiarities of the dialogue at micro level. According to the comparisons, direct participation is undeveloped and indirect participation strongly developed within the Slovenian organisations (International comparative study, HRM, 2001).

The condition of direct participation is revealed by the employees' inclusion into decision making about organisation of work. In comparative terms Slovenian workers are barely included in that type of decision making. This finding indicates that direct participation is undeveloped in Slovenian organisation. In addition to that, Slovenian employees are, compared to their counterparts in other 'transitional' countries, almost totally excluded from decision making about strategy and financial issues.

**Table 4 Employee categories formally briefed about strategy, finance and organisation of work in EU, 'transitional' countries and Slovenia (in %)**

	Strategy			Financial Performance			Organization of work		
	EU	TC	SI	EU	TC	SI	EU	TC	SI
Management	93.8	89.4	92.7	92.0	90.1	88.8	83.3	79.5	89.8
Professional	57.0	53.2	45.9	70.0	57.9	42.4	75.1	74.3	67.8
Clerical	40.2	31.3	4.9	59.0	41.5	14.6	73.2	66.2	39.0
Manual	29.9	21.0	2.4	45.2	24.1	5.9	63.5	65.6	31.7

Source: Cranet-E and Slovenian Survey 2001

Data on indirect participation reveal the second striking peculiarity of Slovenian organisations. Collective representative bodies are more developed in Slovenian organisations than in other compared countries. Slovenian peculiarity is not only a dual employee representation consisting of trade unions and works councils, but also unusually high trade union density rates within the companies (see table 5).

**Table 5 Proportion of organisations from EU, 'transitional' countries and Slovenia with less than 50%, and more than 51% of employees who are members of a trade union (in %)**

	Less than 50%	More than 51%
EU	45.4	39.7
'Transitional' countries	56.0	31.2
Slovenia	23.3	74.2

Source: Cranet-E and Slovenian Survey 2001

This finding fits in with the other research findings (Stanojevic, 2000; 2001) suggesting that comparatively strong trade unions exist within the Slovenian organisations. Within the dual representations they usually have a leading role.

### The main implications of the findings

Undeveloped direct participation is congruent with internal organisational rigidity and corresponding traditional (primarily Fordist) technological structure. Developed indirect participation suggests that collective articulation and manifestation of social demands is strongly presented within Slovenian organisations.

This type of micro-constellations determines the nature of the social dialogue at micro level. Considering the traditional, rigid internal organisational structures, it is most likely that strong collective representative bodies would incline towards oppositional stance/behaviour. Empirical

evidence confirmed that assumption: between management and employees quite classic 'them-and-us' relations are formed at workplaces in Slovenia. (Stanojevic, 2001)

During the last decade these relationships framed the social dialogue at micro level. The main results of these dialogues were numerous micro political exchanges between workers and managers within Slovenian companies.

It seems that exactly these micro exchanges have enabled unusually efficient internal resources' mobilisation within Slovenian companies during the last decade. The key starting point of all these exchanges was a basic common interest of all stakeholders. All of them were interested in the survival of the organisations. In exchange for the wage and job stability workers and their trade unions were ready for additional work inputs. That additional work enabled them and their organisations to survive the last decade. In other words: in the 90s the success of numerous Slovenian labour intensive companies was based on work intensification, supported and enabled by a kind of surviving coalitions between managers on the one hand, and trade unions and workers on the other.

## Conclusion

### The industrial relations diagnosis

During the last decade a specific industrial relations system was formed in Slovenia. It strongly deviates from the general neo-liberal pattern that was formed in other transitional societies.

Firstly, at the beginning of the 90s the Slovenian transition was marked by strong strike activity. Strikes reached highest level when the transformational depression reached bottom. Exactly in that critical year a structural, long-term change within the electoral body happened. The gravity centre of the political scene moved to the left-centre.

Secondly, compared to trade unions from other transitional societies, the Slovenian trade unions are relatively strong organisations. Trade union density rate is significantly higher than in other transitional societies. Other data (about strikes, collective bargaining etc.) indicate that they also have a quite high mobilisation capacity.

Thirdly, in accordance to the strong workers' organisation, the left-centre governments, being generally sensitive to interests presented by trade unions, inclined towards political exchanges and a dialogue with trade unions. At the beginning of the 90s these exchanges initiated and then balanced Slovenian strongly socially oriented and very gradual transition into the market economy. The side result of that process was the industrial relations system with trade unions as influential social partner.

Fourthly, the key dimension of the relatively advanced social dialogue is a developed, for the transitional societies atypically centralised, inclusive collective bargaining system.

Fifthly, the traditional organisational structures survived and adversarial relations were formed at the micro level. Within the transitional pattern from the 90s these micro relationships were functional. Under escalating competitive pressures, at the background of a highly regulated external labour market, the micro relations enabled formation of a highly motivated surviving

coalitions. These were an important short-term advantage of the Slovenian transitional pattern: they secured efficient mobilisation of the internal resources, frequently substituting the slowness of technological renewal by the work intensification.

### **Development of social dialogue in the EMU context**

The identified features of the Slovenian industrial relations system suggest that survival and even further development of the neo-corporative arrangements in Slovenia (within the EMU context) are highly possible. Up to now the government and the trade unions have had the accentuated role in the formation of the industrial relations system. That is why the some kind of mixture of the state and societal corporatism is highly possible in Slovenia. This general inclination towards the relatively strong neo-corporatist arrangements implies the possibility of two basically non-conflict answers to the EMU regime demands.

#### *Scenario of the competitive income policies formation*

The actual social dialogue system enables relatively fast and non-conflictual accommodation of the Slovenian system to the EMU regime. The weakest point of the system is interest cleavage between the employees in public and private sectors of the economy. Under the condition of a successful concertation of these interests, the system could secure formation of the efficient, competitive oriented social pacts - income policies.

#### *More complex developmental scenario*

The key problem of the former competitiveness is its insufficient developmental effect. Because of the identified problems at micro level, the scenario of the competitive income policies is sub-optimal for Slovenia. Widening of a developmental oriented social dialogue (of a sort improving internal organisational flexibilisation) at micro level is essential for Slovenia.

Considering actual constellations and relatively developed social dialogue at macro and mezzo levels, the widening should be focused on micro level. A kind of exchange of the accepted flexibility of wages and salaries on the one hand, for increasing employment, training, education, and legal security of employees, on the other, should secure a stable environment for higher, more long-term oriented co-operation at micro level. It should enable development of productivity bargaining and increasing labour productivity as its key implication.

It seems that the new social pact, which is close to the final reception, contains these key elements. The main points of the pact are presented in the development plan shown in the annex.

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# Annex

## Development plan of the Republic of Slovenia

Redrafted following discussions at the tripartite seminar, 'Social dialogue and EMU in the candidate countries', organised by the European Foundation for the Improvement of Living and Working Conditions, Vienna 22-24 May 2002.

### 1. Introduction

The social partners in Slovenia, that is, the Slovenian Government and representatives of employers and of employees, are aware that accession to the EU and particularly to EMU signifies both a challenge and an opportunity for greater economic development, and through this a higher standard of living, yet at the same time they are aware that through an excessive desire for rapid approximation to European policies, and through pursuing merely financial and economic goals, social welfare and other vitally important issues might be neglected and the social stability undermined. They are aware that successful accession, and in particular ensuring a position of being an equal partner in the community, will depend on the contribution made by everyone participating in the process, that is the employees, employers and the Government, who must for this reason further enhance their mutual cooperation – the social dialogue – and raise it to an even higher level of mutual understanding and trust.

### 2. Social agreement

#### Aims and tasks

The joint tasks and obligations intended to ensure stable development and progress in conditions of social peace, have thus far been defined by the social partners in joint documents such as the social agreement and the agreement on wages policy. The social agreement for the period 2002-2005, on which intensive negotiations are currently being concluded between the social partners, sets out two main aims:

- balanced economic and social development and
- meeting the criteria for EU accession.

The social partners see fulfilment of the criteria for EU accession primarily as one of the conditions for the sustainable development, which they wish to achieve irrespective of EU accession.

The partners take the view that one of the priority tasks during this period is achieving greater competitive capacity for the Slovenian economy, founded upon:

- increasing labour productivity,
- knowledge,
- increased investment in development of the human resources,
- a high level of employment,
- fair pay for workers and
- increased concern for occupational health and safety.

*Balanced social development will be enhanced by the following policies, which occupy an important place in the social agreement:*

### **Wages policy**

The wages policy should function both as an incentive for workers, and at the same time it should not jeopardise further investment in development. On the national level in Slovenia, in the coming years the aim will be to achieve a pace of wages growth that will be kept behind labour productivity growth by 1%. At the same time, the aim will be to:

- rationalise wages policy in the public sector
- maintain purchasing power on the current level
- increase the link between pay and performance.

The manner of increasing wages in the private sector is set out in the Wages Policy Agreement for the period 2002 to 2004, which was concluded as a part to the social agreement and provides twice yearly adjustment of wages to the growth in consumer prices.

In the public sector a slower growth in wages is provided than that seen hitherto, with an agreed greater gap of wages growth behind the growth in prices, in accordance with the annex concluded to the collective agreement for the public sector. These two documents mark the policy agreement for the short term, that is until the beginning of 2004, and for the ensuing period the partners are committed through the aforementioned wage agreement to setting down their long-term tasks in a social agreement.

### **Increasing employment**

Concern for increased employment must be present among all three partners, since the programmes that can be financed from public funds are not sufficient for eliminating unemployment. Through active employment programmes organised on the national level and through additionally raising awareness of the need for lifelong learning and investment in development and employee training, among both employers and employees, it will be possible to secure greater growth in employment and greater employability of individuals. This approach will secure a more efficient dealing with the structural unemployment problem. The priority tasks are therefore:

- educating the work force, both unemployed and employed
- promoting lifelong learning

The difference in wages growth and growth of Gross Domestic Product must also be directed towards increasing employment.

### **Maintaining the achieved level of social security**

In the proposed social agreement the partners noted that they were unanimous in thinking that providing social security for oneself and one's family is the concern of each individual, and can most easily be secured through active participation on the labour market. They are aware, however, that for objective reasons a certain section of the population is unable to do this. In democratic societies such as Slovenia, concern for such individuals and their families is the concern of the



state, which must therefore draw up special programmes and allocate a certain portion of public funds. The partners agree that an active social policy is the correct approach to dealing with this problem, and they will therefore strive to fulfil the adopted guidelines and implement the agreed social policy, which is orientated towards encouraging and supporting assistance for those who need it, so that to the greatest possible extent they can become actively involved in providing for themselves.

### **Increasing concern for occupational safety and health**

The social partners in Slovenia understand the importance of concern for the safety and health of employees, and in the proposed social agreement they also devoted special attention to this area.

### **Increasing legal security of employees**

Strengthening the institutions providing legal security for employees stands as one of the priority tasks of the social partners, and this area also has an important place in the proposed social agreement. In Slovenia the basic conditions, these being appropriate legislation, and institutions which enable the implementation and overseeing of such legislation, have to a large extent already been secured.

The social partners can contribute a great deal towards improving the situation in this area by encouraging their members to change their relations in the immediate work place, and to raise the level of mutual cooperation between employers and workers, and by developing new forms of peaceful paths towards resolving disputes.

### **Meeting the criteria for EU accession**

Approximation to the criteria for accession to the EU will require in particular that Slovenia halts the relatively high growth in prices and ensures a greater balancing of public finances. For this reason these two areas are also included in the social agreement, which sets out the goals and tasks of the social partners in this regard.

### **Inflation**

In line with the proposed agreement, the Government must in future conduct the kind of policy governing prices of public services and certain products which are partly still under its control, in such a way that the harmonisation of these prices with those of neighbouring countries and EU countries will not have a negative effect on inflation trends. A contribution to calming prices growth must also be made by employers and employees through appropriate wages growth and by the Bank of Slovenia through appropriate monetary policy.

### **Balanced public finances**

In the area of public finances, the Government should conduct a policy whereby it will be able to allocate a greater part of budget resources to development, while at the same time easing the burden on the economy by reducing the share of public finance revenue from GDP. For this reason a reform of the tax system will be needed, and this will bring a more appropriate distribution of the tax burdens, through amendment of the valid legislation and through the introduction of new regulations which will ensure new tax sources which have hitherto not been included in the tax system.

### **3. Conclusion**

By concluding the aforementioned social agreement, the social partners will define their tasks in the coming four years, and will also fix their mutual relations and manner of cooperating.

They will also further increase their knowledge and experience in this area under the Phare project 'Enhancement of social dialogue', which will start this autumn. The purpose of this programme is to involve the greatest number possible of those participating in the social dialogue on all levels, to increase their knowledge and enhance their negotiating abilities and to increase awareness on the importance of social dialogue as a crucial element of economic and social development among all participants in the process. Special attention will be focussed on the development of social dialogue at company level. Another aim is to prepare the social partners for social dialogue at European level. Part of the project will be aimed at strengthening the Economic and Social Council, or rather to draw up the legal basis for its operation, and also at improving the system of monitoring collective bargaining in Slovenia.

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*This report examines the present situation and future challenges regarding social dialogue in five candidate countries in the run-up to EU membership and Economic and Monetary Union. It is based on joint research carried out by the Foundation in cooperation with the Swedish Work Life and EU Enlargement project. The first phase covers the following countries: Estonia, Hungary, Malta, Poland and Slovenia. The report describes the national development projects currently in operation in these countries, touching on the political and economic implications arising from the bid to fulfil the Maastricht criteria. Then it presents the five national reports, showing each country's strategy for supporting the convergence process towards EMU by means of social dialogue. The overall aim of the project is to show how social dialogue can be harnessed to generate economic growth in conjunction with employment and social protection in the candidate countries.*

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