

WORKERS OF WELFARE UNITE?
THE POLITICAL ECONOMY OF WELFARE STATE AND PUBLIC
EMPLOYMENT REFORM IN HUNGARY

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ABSTRACT

The thesis deals with the labour relations aspects of the welfare sector reforms that took place in Hungary between 2006 and 2008. It provides an answer for the question why the reform measures resulted in a lose-lose outcome for both the government and the public sector employees. It combines theories of welfare state restructuring, industrial relations and post-communist transition and then contrasts these theoretical expectations with the Hungarian case. It assesses the Hungarian case using descriptive statistics and qualitative analysis. The main findings of the thesis suggest that the interaction of the two sides (the government and public sector employees) took place in the face of radical uncertainty and credibility problems which made both actors weak. These problems had mainly structural roots and led to the failure of government, while also prevented public sector employees from exerting voice efficiently through collective action organized by trade unions. The government's failure was due to its inability to balance successfully between different aspects of the reform (cost containment, recalibration, recommodification) and to take advantage of the divisions of the public sector. On the other hand, long-standing structural and institutional weaknesses prevented public sector unions from efficiently exerting voice. Our findings suggest that public sector employees cannot be treated as strong actors in general, because collective action problems prevail amongst them as well.

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INTRODUCTION

“The welfare state has created its own battalions” – this is a very often heard claim from researchers of welfare state reorganization (Armingeon-Giger 2008: 558). The fact that the battalions include not only the receivers of benefits but the providers of welfare services as well (nurses, teachers, social workers, civil servants) should not come as a surprise either. However, most of the literature so far concentrated on the reforms that targeted the transfer side of the welfare state (Allan-Scruggs 2004, Pierson 2001), and even if some authors noticed this shortcoming and took into account public sector employment, they did it out of desire to arrive at more valid conclusions about general trends in welfare state retrenchment (Pontusson-Clayton 1998). Another important line of research concentrated on the intra-labour redistributive conflict between public (sheltered) and private (exposed) sectors (Swenson 1991) and the negative effect of strong public sector unions on macroeconomic performance (Garret-Way 1999, Traxler-Brandl 2009, Bohle-Greskovits 2009).

So far there has been insufficient attention paid to the issue of how public sector employees react to the government’s restructuring measures. In my thesis I will focus on this aspect of welfare state restructuring in the Hungarian context. I will analyze the comprehensive reform process that started in 2006 and argue that it resulted in a lose-lose outcome for both the government and the public sector employee side. The interaction of the two sides (the government and public sector employees) took place in the face of radical uncertainty and credibility problems which made both actors weak. These problems had mainly structural roots and led to the failure of government, while also prevented the public sector employees from exerting voice efficiently through collective action organized by trade unions. The government’s failure was to a large extent due to its inability to balance successfully between different aspects of the reform – cost containment, recalibration and recommodification (Pierson 2001) – and take advantage of the internal divisions of the public

sector. By including strong aspects of recommodification and recalibration, government measures stirred up the status quo in the public sector that was characterized by low pay but a relatively stable employment position and a substantial second economy. In the Hungarian case there was a very strong status-quo bias among employees in favour of low-paid but stable employment, therefore commodification and recalibration efforts were met by the strongest resistance. In addition, the reforms hit each part of the public sector simultaneously, they hurt many interest at one time. Therefore, during the years of 2006-2008 a very strong anti-reform coalition emerged that included not only the main opposition party but also all significant interest groups representing public sector employees. From the veto points that formed the obstacles to reforms, the protest and non-cooperation of public sector employees was a seminal one.

On the other hand, long-standing structural and institutional weaknesses of interest-articulation prevented public sector employees and trade unions from exerting a decisive blow against restructuring. The government measures increased labour movement fragmentation along political lines. It was the fierce resistance of the parliamentary opposition that eventually derailed reforms. Protest was more successfully channeled through party and identity politics and a referendum against the reform. In the Hungarian context, the dilemmas of general welfare state restructuring were coupled with the prevailing uncertainty of interests among employees – largely as a result of socialist legacies of socialism and a too ambitious shock therapy-style reform approach. This is the main difference between standard welfare state reforms in Western Europe and in Hungary, but other aspects are very similar.

In the thesis I will treat welfare service reform and its employment aspect on its own right, because I believe this is a more important constitutive feature of welfare state restructuring than changes in transfer or insurance arrangements. But why is it important at all to study the service side of the welfare state and those who provide these services? There are

two reasons for this: one is a general consideration connected to economic development the other is in the domain of political economy. I am convinced that the proper functioning of the welfare service providing parts of the state (healthcare, education) is crucial to achieve economic success and social equality in a post-industrial environment. The success of East-Asian economies (Rodrik 1996: 20) and Scandinavian welfare states is to a large extent attributed to heavy investment in human capital formation (The Economist, 6th June 2008). However, we cannot evaluate these services without looking at by whom and under what conditions they are provided. As services in general, education, healthcare – and if we categorize it here, even public administration – are labour intensive activities. They cannot be made more efficient or less costly simply by introducing new technologies. Therefore, the quality and efficiency of welfare state services will always depend to a large extent on the quality and quantity of public sector employees.

From the political economy perspective it is an also more promising – but also more demanding – task to study welfare service reform than the restructuring of transfer, because in this case governments face the double task of taking into account receivers and providers interests simultaneously. All in all, one of the keys to the success of public sector reform is to correctly assess the resistance capacities of employees and appease them. Following the political economy approach towards policy reforms (Rodrik 1996, Nelson 1997, Kornai 1997, Nelson 2001), we adopt an interest- and institution based perspective which focuses not so much on the actual content of reforms but on the process of how reforms are launched and how they can be made acceptable to different interest groups within the society. In the case of public sector reforms, the most important interest groups are the employees themselves. Their resistance possibilities, whether they choose the voice, the loyalty or the exit option (Hirschman 1970) depends on their initial material position and social status as well as on their chances of collective action (Olson 1982).

Behind the dilemmas of public sector reforms lies the fundamental question of how we want to treat public sector employees. Whether we want to see them as members of performance-reducing redistributive coalitions (Olson 1982) that need to be curbed or as providers of services that are essential to the smooth functioning of a successful market economy. Of course these two roles sometimes cannot be separated, but as a result of policy makers can easily find themselves in a schizophrenic situation when dealing with public sector employees.

To support my claims, I launch my thesis by clarifying the issue of public sector employment in general. I explore the main social scientific attitudes towards the social status of public sector employees and I will distinguish between the main groups within the sector. My research focuses on how state employees react to certain welfare-state restructuring policy measures. So, having clarified conceptual and “class” issues I will try to summarize the general dilemmas that governments on the one side and employees in the public sector on the other face when it comes to welfare service reforms. In so doing, I need to adapt an interdisciplinary approach. My conceptual framework will draw from the intersection of welfare state and industrial relations literature. Here I need to emphasize that although it is quite obvious that welfare service restructuring provides a very good possibility to connect these two fields of research, this has not been done so far. Apart from descriptive research on public sector employment (Corby-White 1999), industrial relations literature focused on wider questions of conflicts between the private and public sector in the context of tripartite bargaining, social pacts and neo-corporatism. (Garret-Way 1999, Traxler-Brandl 2009, Bohle-Greskovits 2009)

Similarly, restructuring of public employment was looked at only in the broader perspective of welfare state retrenchment. (Clayton-Pontusson 1998, Pierson 2001). Focusing on the interaction between governments and public sector employees during welfare service

reforms I will argue that the success of reforms depend on how they combine the three elements of recalibration restructuring and cost containment and on how they can capitalize on internal divisions within the public sector. I will challenge the general view of public sector employees as strong actors versus the government.

To adjust these general claims to the Hungarian case, I will also very much rely on the literature about post-communist transition which is itself a multidisciplinary research area also incorporating the two fields mentioned above. I will emphasize the role of the survival of socialist legacies in the public sector as well as difficulties that come from the different circumstances that apply to short-term stabilization and liberalization and long-term social service reforms. The latter are burdened by special political obstacles, and time-consuming special consultation mechanisms are needed before launching any programme in order that it can have a chance to reach its goals. (Nelson 1997)

After I set up my theoretical framework based on the combination of relevant public-sector related arguments found in the existing literature, I will outline my expectations about the patterns of protest and patience in the Hungarian public sector since 2006. To describe the main structural and institutional features of Hungarian public sector and also to assess the effect of recent reforms I will use data from OECD, ILO and from Hungarian Central Statistical Office (KSH) databases. I had to treat these data with much precaution, especially those regarding employment trends. Sometimes the concepts and ideas lying behind the composition of the data have more explanatory capacity than the data itself. I also reviewed existing laws regulating labour relations in the public sector as well as policy documents of the government and international organizations. To trace the political process of reforms and the interactions of government and the unions, I also analyzed the main press releases and the publications of the European Labour Relations Observatory On-line concerning negotiations about reforms, the measures themselves and the protest against them. Regarding press

releases, I focused on the main Hungarian weekly (HVG) and the time frame I chose span from June 2006 when the first reform measures were introduced to March 2008, when they lost momentum after the so-called social referendum initiated by the opposition. However, to assess structural and institutional features of public sector employment I will use a broader time perspective.

My thesis is a single case study on the industrial relations aspects of welfare service and public sector reorganization. It does not intend to classify the Hungarian case in the framework of any kind of welfare state typology (Esping-Andersen 1990), but it will use comparative analogies wherever it is relevant. I believe that by combining the research areas of welfare state reform, industrial relations and transition studies I arrived at some valid conclusions about a recent and very substantial topic of Hungarian politics.

CHAPTER 1 – DEFINING PUBLIC SECTOR EMPLOYMENT

To understand the dynamics of public sector employment reforms, first we need to clarify the concept of public sector employment itself. In this chapter I will do this by contrasting the characteristics of public to private sector employment and by discussing the internal features of the sector. I will point out that by now public employment and welfare-state employment became largely identical concepts as the traditional administrative functions (bureaucracy, defence) and the new welfare functions (healthcare, education) of the state are hard to separate. Therefore in my thesis I will use the notion of public sector and welfare state reform interchangeably. However, this generalization does not mean that different groups of the public sector will react to welfare state reforms identically. Following Erik Olin Wright's typology (1997) I will explore the state political sector versus state service sector cleavage as the main division within public sector employment. However, unlike Wright, I will focus on the difference in the interest articulation capacities of these two groups and argue that public sector employees are better equipped to pursue their interests.

Public sector employees occupy a special position in contemporary capitalist societies. Following the basic Marxist assumption we can classify them as proletarians because they do not own their means of production, and they sell their labour for wages. However, they sell their labour for the state and not to private employers which makes a difference: public employees are not directly exposed to market forces. By re-formulating Gösta Esping-Andersen's notion we can say that the work relations of public sector employees are decommodified. They can make a living independently of the market, because they make a living from the state. Their employment is provided by organizations that –as they use taxpayers money – have soft budget constraints. Besides, the majority of the public employees are white-collar, service-providing workers. In the classic work of "Three Worlds of Welfare Capitalism" Esping-Andersen (1990) argues that in post-industrial societies a large part of the

newly emerging service employment is concentrated in the public sector. The expansion of public sector employment sociological

Marxists and liberals are equally suspicious about this “new working class”. Marxists usually classify salaried state employees as members of the petty bourgeoisie, who “have some degree of power and responsibility in the operation of the mechanisms of production”, control some part of communication and persuasion as the main sources of domination in contemporary societies. In this respect they side with the forces of capital. However the same line of argument clearly distinguishes this part of the petty bourgeoisie from the small entrepreneur, self-employed stratum, which has more “reactionary” attitudes. (Miliband 1989, 22) State employees can ally with the working class and be a new source for labour protest (Silver 2003, Della Porta 2005) as they also feel the market pressures through restructuring and privatization. As we shall see later, the recommodification, cost-containment and recalibration (Pierson 2001: 422) affect them as well. On the other hand, the “classic” liberal approach is quite hostile towards state employees. Sheltered from (international) market pressures and possessing the ability to hijack government policies, state employees can withhold productivity and have a propensity to seek rents and free-ride on private actors – the liberal and even the social democratic argument goes. (Garret-Way 1999)

Nevertheless, these accounts leave open the issue that there are serious intra-group differences within public sector employment (let alone between the composition and weight of public sector employment in different welfare regimes). Throughout the thesis I will strive to conceptual clarity about the composition of the public sector, so now I explore the internal divisions among public sector employees. Apart from Esping-Andersen and Erik Olin Wright, most of the authors discussed in the thesis treat public sector as a monolithic bloc, but in reality internal divisions are exactly as prevalent there as in the private sector. According to Erik Olin Wright, there are two main parts of state employment: the state service sector and

the state political sector (Wright 1997: 463). He makes this distinction on the basis that the former group is responsible for providing decommodified state services while the latter one controls the capitalist political superstructure, while the latter. I want to modify Wright's categorization in the sense that I will de-emphasize the importance of the different place these two groups occupy in the social production process but instead I will focus on the different position with regard to their interest articulation capabilities. Regarding the production side we can state that in modern welfare state it is very hard to separate the "traditional" bureaucratic and the "new" welfare functions of the state. For example, although police officers are regarded as traditional state employees, one can easily argue in favour of classifying public security as part of the welfare services. Besides, "second order" welfare state services (healthcare, education) can function properly only if a set of first order services (administration, tax collection, maintaining public order) are also strong.

However, welfare service employees (teachers, doctors, nurses, social workers) and traditional state employees (mostly state bureaucrats and members of law-enforcement agencies) have different status characteristics. Traditional state employees are more powerful and therefore they are also more capable of resisting public sector reforms despite the fact that their relative numerical importance is in decline compared to the "new" service providing group. This strength can be explained by two factors – the first is a general phenomenon the second is a historical characteristic of continental welfare states. First, as they have the core task of running the state itself, they can influence or defy politically motivated central decisions very easily. It is always the hardest for the central bureaucracy to reform itself. This is a very often heard claim in public choice theory (Corby-White 1999:10) At the same time, employees in "welfare state proper" (teachers, doctors, nurses) do not have official authority tasks, they are further away from the "pot".

The other reason for the strength of traditional state bureaucracy is largely historical and constrained to continental Europe. The pre-eminence of state employment here goes back to absolutist traditions, to the state-led version of capitalist development and the resulting reliance of the emerging middle classes on the state. Even simple words can tell a lot in this respect. Instead of civil servant, German uses the term “Beamte(r)” (“official”) to express the status superiority attached to state employment. Actually, “Beamter” had (and still has) a generous pay scale dependent only on years in service, very high level of employment security, lavish pension schemes and other benefits. It should be noted here that the Beamter status is usually a privilege of civil servants in public administration, the police and military, and welfare service providing employees are excluded in most cases. Hungary followed the German model and the state socialism even strengthened it to some extent, as we will see civil servants always get the upper hand and more favourable treatment than employees of the welfare service-providing agencies. However, their privileges can serve as a desired model for other state employees. (European Foundation for the Improvement of Living and Working Conditions 2007)

Before moving on to the general dilemmas of welfare state reforms, we have to mention a third group of public sector employees that consists of workers in state-owned enterprises. This is again a quite vague category as some part of welfare state services can also be run in the corporate legal form (in Britain healthcare is run by NHS trusts). On the other hand, state ownership of companies outside of welfare state services is in the retreat everywhere. We also have to consider that even in Great Britain the first and main targets of the neo-liberal offensive were state-owned companies and not the welfare service or the public administration sector. (Corby-White 1999: 8) Fortunately, statistics usually distinguish between public corporations and the first two groups (taken together under the notion of general government) and we can see from the data that state-owned enterprises now employ

less than five percent of the workforce almost in every Western European country, and in Hungary as well. (OECD 2009, KSH 2010) Again, we have to add a caveat: those who remained in this third segment of state employment (usually postal and public transportation workers) are usually well-organized, militant, contentious and enjoy a very good bargaining position compared to most of the welfare-service providing employees.

CHAPTER 2 – THE POLITICAL ECONOMY OF WELFARE SERVICE REFORMS – GENERAL DILEMMAS

In this chapter I set up the theoretical framework with the help of which I will examine the reform process that took place in the Hungarian public sector from 2006 on. Drawing from welfare state and industrial relations literature I will argue that reforming the service-providing side of the welfare state is a fundamentally different and a more complex task than restructuring transfer and insurance schemes, exactly because of the strong industrial relations aspects the former entails. In general, welfare services are provided by public sector employees, so they are the main targets when it comes to restructuring in these areas. At the same time, public sector employees are usually seen as occupying a privileged position in the national bargaining structure (Garret-Way 1999, Traxler-Brandl 2009) and therefore relatively capable of resisting reform attempts (Rattsø- Sørensen 2004) by shoving off the costs of adjustment to the private sector (Garret-Way 1999, Traxler-Brandl 2009). Indeed, comprehensive public sector overhauls (shifting from one type of welfare regime to another) are virtually non-existent, but major reforms still happen. (Giamino 2001, Clayton-Pontusson 1998)

The success of these reforms depend on how they combine the elements of cost-containment, marketization and re-calibration, on how strong is the public sector resistance they have to meet, and on how they can take advantage of the internal divisions and institutional weakness of public sector labour. In general, I want to challenge the idea that public sector employees are inherently strong and capable of resisting of reform attempts. Eventually, collective action problems apply to them as well. These considerations are not explicitly present either in the welfare state or in the industrial relations literature, but I combined the ideas in these two fields to build the theoretical framework outlined above and presented in detail below.

2.1 The expansion of the welfare states: transfers and services

There are two main branches of welfare state functioning: transfers and services. Specific groups of citizens are entitled to material (cash) benefits from the state (e. g. unemployment benefit, sick pay, family benefits, pension). On the other hand, citizens are also receivers of public services, mostly in the field of education and healthcare, but for reasons discussed in the first chapter, I will also classify defence and public administration as a type of welfare service. The expansion of the welfare and service branch went hand in hand and both of them were also closely intertwined with large-scale economic and political developments. (Heidenheimer 1973) For example, as the introduction of social insurance and pension schemes in Bismarckian Germany was not independent from weakening social democracy and meeting the needs of industry, so the expansion of public education was also closely related to the needs of capital and the fight against the church. As part of the democratic class compromise, the post-1945 Golden Age of the welfare state was also characterized by the growing importance of public services which enabled relatively equal access of all social classes to healthcare and education and helped social mobility. Again, starting from the 1970s, the economic, social and political challenges that welfare states had to cope with touched not only upon its transfer but also on its service-providing side. (Pierson 2001: 415)

In my thesis, I will focus on the provider side of these services, on those employees who work in state-run welfare-providing institutions: schoolteachers, doctors, nurses, administrative personnel. More specifically, I will examine how welfare state restructuring affects them and how they react to it. The expansion of state-provided welfare services from the 19th century on was necessarily accompanied by an expansion of public employment. As it is true for services in general (Baumol-Bowen 1966), these activities are very labour-intensive and to meet increasing demand additional labour force had to be installed. Although in some fields (especially in healthcare) technological developments are available and applicable,

human labour is still the single most important input in these branches of the economy. Today, the same number of personnel is needed to carry out an operation as was in the 19th century. The same holds for education: teachers in the 21st century are only able to educate efficiently the same amount of student as centuries ago. The difference is that today there is a much larger demand for these services that could only be satisfied by employing more and more people in healthcare and education. On the other hand there is constant financial pressure on the state to cut costs which from the same reasons also can be mostly done by reducing employment and privatizing public services. Besides, the expansion of services (and in this respect transfers had the same effect) meant increasing administrative needs (e.g. in taxation), so state bureaucracy had to be enlarged as well. When one looks at the data it turns out that even in Christian democratic welfare states (like Germany) where the state left serious welfare responsibilities in the private or non-profit sector (e.g. at churches), public employment rose steadily until right into the 1980s. (See table 2.1)

Table 2.1: Government employment as % of total in two typical European welfare states

Germany		Sweden	
1961	1983	1965	1985
8.0	16.1	18.2	33.0

Source: Esping-Andersen 1990: 202

2.2 The industrial relations aspect of welfare state reforms

The massive consequences of welfare state expansion in terms of employment determines the post-1980 (or in the case of Eastern Europe post-1990) reform process as well. While the transfer and the service side of the welfare state was built up simultaneously and their restructuring also started roughly at the same time, the character of the reforms differ significantly in the two domain, with reshaping services being a more complex and more difficult task. When it comes to restructuring transfers, governments have to take into consideration only the possible reactions of the receivers. Additionally, when the feasibility of transfer restructuring is examined, policy-makers can take advantage of the fact that their

measures target mostly those who live outside the world of work. These might be very significant electoral groups (e.g. pensioners), but their interest articulation capacities are usually constrained to the ballot boxes.

By contrast, when designing a reform of welfare services, policy-makers face a double challenge: they do not only have to calculate with receivers' preferences but also with those of providers, i.e. public sector employees. In my view, this is the most important factor that distinguishes welfare service restructuring from transfer rearrangements: any kind of reform that targets the service-providing side of welfare state has a strong industrial (human) relations aspect. The success of reforms largely depends on the resistance capabilities of the public sector on one side and on government's ability to create allies or at least curb open opposition on the other.

In other words, whilst studying public sector reforms one cannot avoid finding *very strong connections between welfare state and industrial relations* considerations. However, until recently scholars in both research areas showed a certain kind of ignorance towards each other and both shunned the topic of public sector employment reform. The welfare state literature kept focusing on transfers and insurance schemes as well as on traditional party politics (Allan-Scruggs 2004, Kitschelt 2001), whilst scholars of industrial relations were preoccupied with the relationship between labour and capital in the private sector.

From the 1990s on, a process of rapprochement started as researchers in both fields discovered the public sector as a "research niche". While studying corporatist arrangements, industrial relations specialists turned their attention to the intra-labour conflict between workers in the private (exposed) and the public (sheltered) sector and on how this conflict affects bargaining processes and macroeconomic performance. (Swenson 1991, Garret-Way 1999, Traxler-Brandl 2009). In addition, the more descriptive part of industrial relations literature also discovered the public sector. (Corby-White 1999, European Foundation for the

Improvement of Living and Working Conditions (2007):) Simultaneously, the public employment and service-providing aspects of welfare state also came under more extensive research, especially in the context of welfare regime typology. (Esping-Andersen 1990, Clayton-Pontusson 1998, Iversen-Wren 1998, Pierson 2001) This narrative ascribed the peculiarity of social democratic (Scandinavian) welfare states to the fact that they provide high quality, publicly financed universal services (in healthcare, education, elderly care) to their citizens. Besides, the employment aspects of an enlarged public sector were also seen as significant, mostly in terms of increasing female participation rates. (Esping-Andersen 1990) However, the distorted power balance between the public and private sector was hypothesized as a factor that likely to reduce economic performance either through destroying fiscal sustainability (Iversen-Wren 1998, Wren 2001) or by pulling back the competitiveness of the non-sheltered private sector. (Garret-Way 1999, Traxler-Brandl 2009) This is where the two areas connect each other.

Nevertheless, these findings are still insufficient for our purpose of analyzing the industrial relations aspects of welfare service reforms in two respects. First, there is not a single article written exclusively on this issue, these considerations are always formulated as part of a broader argument about welfare state retrenchment (Clayton-Pontusson 1998, Iversen-Wren 1998, Pierson 2001) or bargaining structure and economic performance (Garret-Way 1999, Traxler-Brandl 2009). So one has to build a new framework by extending and combining the ideas scattered around in existing literature. My conception of how welfare service restructuring affects welfare service employees rests on Paul Pierson's article (2001) that takes a general view on welfare state retrenchment, but the analytical tools it applies can be extended to examine welfare service reform more specifically. I will supplement his argument by the ideas I extracted from the sheltered versus non-sheltered industrial relations literature. From their findings I want to emphasize that strong public sector is usually a threat

in the case of Scandinavian welfare states that has very strong public sector unions and a centralized bargaining structure. Besides, this branch of literature puts an exclusive focus on wage setting (and therefore cost containment) and misconceptualizes productivity. I will also incorporate a generalizable lesson from the British experience about how reformers can take advantage of the internal divisions of public sector labour.

Pierson makes distinction between three elements of welfare state restructuring: cost-containment, re-commodification and re-callibration. Usually, cost-containment is the most clear-cut case and it is in the centre of attention in any kind of research that deals with welfare state restructuring: state fiscal capacities are more and more constrained, the income side of the budget cannot be increased any longer through raising taxes. (Pierson 2001: 424) Therefore, austerity measures should focus on the expenditure side of the budget they have to cut transfer and/or services. From the industrial relations aspect cost containment can mean decreasing public sector wages, laying-off of workers in the sector and increasing workload for those who left there. However, public sector downsizing can have controversial results in fiscal terms as (at least in the short run) it is usually very costly to dismiss public sector employees. High redundancy pay or early retirement schemes and unemployment benefits usually increase the burdens on budget in the short run instead of alleviating it.

In Pierson's framework, recommodification is equivalent with pushing citizens to rely more on the market in maintaining their subsistence. Although he does not give details about the possible forms of recommodification, the empirical literature suggests that apart from the obvious example of privatization of a whole service, outsourcing or subcontracting a part of a welfare programme and other forms of public-private partnerships also can fall into this category. (Corby-White 1999: 8-11) Even when services remain financed from the state budget, the organizer and provider of these services can become a private, for-profit company, who takes over the employment of public sector workers from the state. During

(re)commodification, public sector workers usually lose their protected legal status as a civil servant or public sector employee and have to accept more flexibility demanded by the new profit-driven employer. Recommodification can also sharpen intra-labour conflicts as it increases the role of performance-related pay. As we will see in the Hungarian case, recommodification does not necessarily bring the loss of status or financial opportunities, and usually hits the lower strata of public sector employees harder. For example, there is a significant difference between a general practitioner becoming self-employed and running his/her office privately and a hospital nurse losing public employee status and ending up in the personnel of a private company for an even lower wage and longer working hours than previously. Before moving on to recalibration, I have to emphasize that recommodification is not the only way of “de-statization”. One has to keep in mind that the state can hand over responsibilities to non-profit organizations (e.g. churches) as well. In this case, the effects on the employment conditions of public sector workers can be milder but other considerations such as ideological issues come into the picture.

Recalibration can either mean the re-arrangement of welfare state programs to meet altered societal demands (updating), or to change the set of instruments to satisfy already existing demands more efficiently (rationalization). (Pierson 2001: 425) According to Pierson, rationalization is often very hard to tell apart from cost-containment, because more efficiency usually means cost-efficiency or in the case of welfare services, providing the same quality of services while employing less welfare workers. Even if one puts aside worries about the labour-intensiveness of welfare services and accepts Pierson’s point that rationalization measures do not necessarily reduce service quality and consumer satisfaction, it is still very likely that they hurt public sector employees to the same extent as pure cost-containment. The case is different when it comes to welfare service updating, i.e. the satisfaction of new consumer needs. This can entail the top-down re-channelling of state resources from close-to-

obsolete functions (e.g. tuberculosis sanatoriums or mass primary education) to more needed functions (e.g. elderly care, special needs education). Another option is directly empowering welfare service clients by increasing their autonomy and consumer awareness, a good example can be the introduction of school vouchers for parents. These measures are sometimes explicitly designed to fight producer capture. (Corby-White 1999: 10) In my view, these measures put similar pressures on providers as (re-) commodification (they require more flexibility), but they are more predictable and less radical. Therefore they can be accepted by welfare state workers more easily.

As Pierson pointed out in relation to welfare state reforms in general (including transfer restructuring), these elements were combined to a different extent in the restructuring processes that took place in the three types of welfare state regimes (social democratic, liberal and Christian democratic.) In each regime type, only two of these elements were stressed during the reform process. In the case of the social and the Christian democratic type recalibration and cost containment took the lead, whereas in liberal welfare states cost containment was more closely attached to recommodification. (Pierson 2001: 426) I believe that in the case of Hungary all three elements were overemphasized in the government rhetoric. On the other hand it was not clear that in reality which of the three will take the lead in concrete policy measures.

After discussing how the different components of welfare service reforms affect public sector employees, we turn our attention to assess their resistance capacities. In doing so, I will emphasize that the existing corporatism literature attributes public sector employees a powerful position only if there is a central bargaining structure and a strong public-sector union movement, as was the case of social democratic welfare states in the 1980s. (Swenson 1991, Garret-Way 1999) In case of a decentralized bargaining structure where the exposed sector determines the pattern, public sector unions are not that influential (Traxler-Brandl

2009: 11). However, there is a slight controversy in the attitude of this branch of literature towards public sector employees: despite acknowledging that collective action problems can apply to public sector employees then, they are also hypothesised as a monolith bloc capable of capturing the state and resisting government attempts to fiscal rigour (Traxler-Brandl 2009:12). This is presumably due to the influence of public choice literature. So we have to emphasize that public sector employees are only strong if there is also an encompassing union movement for them as well.

Besides, this branch of literature puts an exclusive focus on wage setting as the scope of tripartite agreements, but we saw that welfare state reform is about more than that. As Pierson also (2001, 444) points out, the main possible line of conflict in Scandinavian welfare states is not between the public (sheltered) and the private (non-sheltered) sector, but between the providers and the receivers of state-sponsored services. The main question is how the welfare state can meet increasing quality demands from the higher middle classes and avoid class polarization in service consumption. So the main challenge is not really about re-commodification or cost-containment but about recalibration. However, social democratic welfare states pioneer in adapting policies that can satisfy upper middle class needs without re-commodification of the welfare sector. (Burkitt-Whyman 1994, Kitgaard 2007) The sheltered/non-sheltered argument is also problematic because it ignores the incommensurability of public and private sector productivity. Public sector productivity and productivity growth is notoriously hard to measure (Clayton-Pontusson 1998: 84) and one also should not forget that public sector provides services that are crucial to maintain the productivity of the private sector. Therefore the sheltered/exposed literature falsely regards public sector employees as “pay parasites” who are able to resist pressures to wage moderation and to free-ride on private sector’s competitive achievements.

I will argue that although they are not necessarily strong in terms of institutional interest representation, welfare-providing public sector workers still need special attention before launching any kind of reform. This is exactly because they function as agents of the government. The current literature of welfare state restructuring sees electoral punishment as the biggest threat facing reform-minded governments (Kitschelt 2001, Armingeon-Giger 2008). My thesis builds on the assumption that in the case of public service reforms, governments face a stronger and more direct challenge from public sector employees, whose reactions can prove to be crucial to the outcome of reform measures in terms of legitimacy, implementation and feedback. First, the insufficiency of consultation with the representatives of employees can easily and right away undermine the legitimacy of government-initiated welfare service reforms. Besides, employees are able to disrupt the implementation of reforms accepted by legislature. They can not only protest directly through industrial action but in possession of local and tacit knowledge they can find loopholes through which they can circumvent new legislation. This is a typical case of the principal-agent controversy. Even if they are benevolent towards reforms, as long as these were formulated without them, they will find it hard to apply them. In close connection to the issue of legitimacy and implementation, public sector employees should give feedback on reforms and help developing the policy cycle in a positive direction.

Apart from public service employees' crucial role in legitimizing and implementing reforms as well as giving feedbacks about them, they themselves form a very large share of electorate (Rattsø-Sørensen 2004) and can also influence large groups of other voters. The legitimacy of reforms largely depends on the view of those who are "experts" on the field, who have local knowledge. In case of unacceptable reforms disruption of public services and the hostile attitude of public sector employees can prove to the public that reform governments are incompetent.

Finally, the internal divisions and stratification of the public sector matters as well in the reform process. As the British example demonstrates, reforms have to start from the margins by targeting those groups who are less capable of resisting restructuring. (Giamino 2001) The strength and the sequencing of the neoliberal reforms reflected the internal stratification of state employees. Thatcherite reforms did not touch every state employee to the same extent. Employees in state-owned companies and auxiliary services were the main target. State-owned mines were shut down and hospital cleaning was outsourced to private entrepreneurs resulting in a dramatic reduction in wages. (Iversen-Wren 1998: 536) But the attack on the core services of the welfare state came later and was not that harsh in the first place. Budget constraints were hardened, unions crushed, decentralization increased in education and healthcare, but Thatcher did not dare to privatize the National Health Service. (Giamino 2001) Besides, the real cuts in general government employment took place under the Major government (Corby-White 1999: 39)

2.3 Public sector reforms in a post-communist environment

The dilemmas outlined above apply the more so in an East-Central European, post-communist environment. In the socialist countries of Eastern Europe, universal access was guaranteed to welfare services (in János Kornai's words, a premature welfare state emerged), which resulted in excessive expectations and a chronic shortage similar to the "material" sector. (Kornai 1997) After the collapse of communism, the general public sector reform dilemmas that are present in Western Europe are coupled by the heritage of the socialist past. Post-socialist governments are pressured from international markets to maintain balanced budgets and compete on labour costs, and at the same time they have to restructure their expenditures in a way that ensures long-term requirements of human capital development and addresses the problems of an aging population. In "post-transition" economies stabilization

can be achieved either through increased taxation (which is already high in some cases – in Hungary) or through cutting welfare expenditures, which will likely hurt public employees. In recent years, the attention of scholars studying East-Central European political and economic systems has turned to social policy and welfare state restructuring. (Kornai-Haggard-Kauffman 2001, Haggard-Kaufman 2009).

As the SL(I)P-phase of transition is over, the market economy more or less started to function, there are no more state-owned firms to privatize, any stabilization and restructuring measure necessarily has to concentrate on the general government sector not only as a result of fiscal pressures but also of a “neoliberal desire” to eliminate the last remnants of socialism. Table 2.2 demonstrates that judged from the low employment in state-owned firms the change of the system can be declared in Hungary. On the other hand, general government employment (that includes administration, healthcare and education) is the largest in the region. Besides, we are not allowed to forget that the boundaries between state and market are not clear in the private sector either. Insider interests, monopolies, state subsidies even to multinational companies endure. (Bohle-Greskovits 2007: 445)

Table 2.2: Public sector employment in the Visegrad countries, 2006

	Czech R.	Hungary	Poland	Slovakia
employment rate	65,3	57,3	54,5	59,4
public sector	19,9	26,4	27,5	24,1
employment in state-owned enterprises	6,7	3,6	15,0	11,1
general government	13,2	22,8	12,5	13,0

Source: EUROSTAT, ILO Laborsta Database, KSH

Public sector reforms can prove to be a more difficult task than creating basic market and democratic institutions. Public sector and especially its welfare-service providing parts are harder to be restructured from several reasons. There are no clear-cut blueprints which could be imported “from the west” and interests that need to be concerted are more diverse and more powerful (Nelson 1997, 2001: 257). Besides, if a low-level equilibrium (Greskovits

1998: 178) evolved in the first years of transition, this implies that interests are frozen and actors exhibit a very high level of uncertainty-avoidance and status-quo bias. If certain interest groups survived the first years of transition they will not ready to put up with radical steps any longer. The window of opportunity for policy makers might shut down after a very short grace period. Even if macro-economic conditions would favour long-term coordination of public sector reforms, the mutual distrust between the interested parties (the state, providers and receivers), low state and union capacity (due to party competition on the governmental side and fragmentation on the union side) could prevent any pact from working. It seems that not only labour in general (Ost 2005) but public sector labour in particular was not incorporated in new democracies. Paradoxically though, apart from some more descriptive accounts, the literature on (Kubicek 1999, Ost 2000, Avdagic 2005) post-socialist labour movement also left out or only partially dealt with the public sector. As a result of the lack of general theoretical literature I will take a more descriptive stance in industrial relations matters in the following.

CHAPTER3 –THE HUNGARIAN CASE

3.1. *The structural and institutional features of Hungarian public sector employment*

In this chapter, I will present the structural features of the labour force employed in the Hungarian public sector as well as the institutional characteristics of public sector interest-representation. *I will do this in a bid to explore the constraints on collective action of Hungarian public sector workers when it comes to restructuring.* My overview suggests that employees in the Hungarian public sector prefer *individual response strategies* instead of collective action and they are more likely to choose the exit option instead of voice (Hirschman 1970). They also exhibit a very strong *status-quo bias*: they are more ready to tolerate cost-containment (low wages) than commodification or re-calibration attempts. Therefore, collective actions occur with a defensive purpose. (Crowley-Ost 2001: 222) We identify the factors behind these characteristics as follows: serious intra-group differences, low wages but stable employment conditions, enduring legacies of Goulash communism, decentralization, the female and “aging” labour force, declining unionization and a fragmented union movement.

In addition, one can observe significant intra-sectoral differences with regard to legal statuses and occupational groups. Civil servants are relatively better situated than public service employees, public administration and defence fares better in terms of working conditions and wages than education and healthcare is usually at the bottom. De-centralization in healthcare and education just deepens the divisions. Within the healthcare and education sector there are also very significant differences. I categorized the unionization and the bargaining structure of the sector as institutional characteristics. These institutions cannot counteract the negative effects of structural features on collective action. In union density the public sector still fares better than the private sector, but in recent years the negative trends

continued: density rates dropped and fragmentation increased. Paradoxically, top-level bargaining is the best-functioning institution, but it is only good to preserve the status-quo. As a result of the general weakness of institutionalized interest representation protest voting gains importance among public sector employees as well. Therefore, electoral politics takes over industrial relations issues as well, as demonstrated by the 2002 wage hike and the conservative opposition leading the protest against the welfare cuts.

In Hungary, the public sector is still among the largest employers. According to the International Labour Organization's LABORSTA survey, in 2006 (the starting year of the reforms) 22.8 percent of Hungarian labour force was employed by the general government. (See again Table 2.2) This was the highest proportion in the region, all the other Visegrad countries had substantially smaller government in terms of employment (Czech Republic: 13.2, Slovakia:13, Poland: 12,5 percent.) According to OECD the corresponding numbers for 2005 are 19.2 (Hungary), 12.9 (Czech Republic), 13.4 (Poland), 9.5 (Slovakia). In comparison with all the other OECD-countries Hungary had the fourth highest proportion of general government employment after Norway, Sweden, France and Finland. When analysing these data one has to keep in mind one caveat. The high Hungarian figure is partly due to the extremely low level of (legal) employment in the private sector, but as we can see from Table 2.2 this does not explain the difference between Hungary on the one side Poland and Slovakia on the other.

As we can see from Table 3.1 and 3.5 (the one with the long-term wage trends), wages in the Hungarian public sector are traditionally lower than in the private sector. Despite a 50 percent wage-hike in 2002, in 2006 (the year preceding the reforms) wages for white collar workers in the public sector lagged behind the private sector by 11 percent. However, there are significant differences between sub-groups. Those employed in public administration,

defence and compulsory social security earn as much as their private sector counterparts; 30 percent more than healthcare and 20 percent more than education workers.

In Hungary, general government employees enjoy a legal status different from those employed in the private sector. Most of the skilled labour force working in public administration, defence and social security qualify as (carrier) civil servants. On the other hand, teachers, nurses, doctors and other welfare-service providing employees are classified as public service employees. The two groups' relationship with the employer (who is usually an institution maintained by the central or local government) is regulated by two separate laws which offer safe employment conditions and a standardized pay scale based on qualifications and seniority. (Berki 2006) The management's autonomy in remunerations and performance pay is usually not significant. The combination of low pay and safe employment defines the main social position of state employees which is supplemented by a set of other social characteristics that also serve to preserve the status quo but at the same time impede collective action.

Table 3.1: Main features of public sector employment in Hungary, 2005

	total employees	public	private	intellectual	physical	average wage (public, intellectual)
public total general government	-	805	-	-	-	89
public administration, defence, compulsory social security	318	318	-	216	102	102
education	255	237	18	206	32	84
health- and social care	219	194	26	142	52	74

Source: KSH Statdat

Average wage in percentage of average private sector intellectual wage

Employees in thousands, average wage as percentage of average private sector intellectual job

First, we also have to take into account issues of gender and age. In both respects, we can observe a low-level equilibrium that forces Hungarian public sector employees in a defensive position, which means that they favour the present high employment stability-low wage combination instead of a possible loss in stability for the sake of higher wages. In the public sector, the share of women is very high throughout OECD countries, and in the case of Hungary this is even more so. (OECD 2009) However, as we can see on Table 3.2, there are significant differences amongst occupational groups, with primary education and nursing representing very strong, “traditional female” ghettos – to use Esping-Andersen’s words. Teaching and nursing are “the textile industry of the service sector”. Teachers and nurses earn the lowest salaries and have the largest portion of female workforce in the white collar sector. (KSH stADAT, 2008) However, the relative stability of being employed in the public sector enables women to reconcile work and life more easily here than in the private sector. Besides, in a male-breadwinner model – which is still characteristic of Hungary – the low pay of the wife can be compensated by her husband’s higher income. The aging workforce (OECD 2009: 6) has the same effect in terms of accepting low pay in return for high employment stability. In the fixed pay-scale system, wages increase by years in service, so older employees are usually better off, and they are also more insistent on stability as they have less chance to find a job in the private sector.

Table 3.2: Female employment in the Hungarian public sector, 2006 (thousands)

	administration	education	healthcare
total	299,2	322,9	260,4
female	148,2	250,7	209,5
percent	49,5	77,6	80,4

Source: KSH Stadat

Second, the Kádárist second economy is still present in the public sector. The effect of socialist legacies is hard to measure, but the most salient case is healthcare where in-pocket pay for better services is a wide-spread and socially accepted practice (Medián 2007) inherited from the past (Kornai 2001: 198) Private tuition is also very much present in education. (Gordon Györi 2008:272) Again, these phenomena strengthen status-quo bias, individualization and internal divisions at the same time. If low pay can be supplemented by other means, employment stability and shorter “official“ working hours come to the fore and going informal can be a response to economic hardship (Greskovits 1998: 83) On the other hand, these additional resources are only available to certain groups within the sectors: highly qualified doctors or high school teachers with more marketable skills (mostly foreign languages). The recently opened opportunity to take a job in Western Europe also provides an exit option for a lot of people, especially in healthcare. Although the emigration of healthcare personnel is less prevalent in Hungary than in other CEE countries, an upward trend is observable between 2000-2007. (Kaminska-Kahancova 2010: 13)

Third, not only occupational cleavages, Kádárist legacies and emigration possibilities divide public sector employees in Hungary, but also decentralisation. This problem is again the deepest in healthcare and education. The Hungarian school system was decentralised after the fall of state socialism. The 1990 Act on Local Governments transferred the responsibility of maintaining primary schools from the central government to municipalities. Nearly 2500 local governments became school owners and most of them still run their own school. (Open Society Institute 2001: 42)The decentralization had ambiguous consequences, mostly due to the unfavourable financial circumstances and improper financial regulation. The per-capita grant that local councils receive does not cover all the financial needs of local schools, so councils have to supplement it from their own resources- if they can afford. More developed neighbourhoods are able to spend more on their schools and their teachers. In healthcare,

similar processes took place. (Heti Világgazdaság, September 2 2006:74, November 11 2006: 95)

All in all, the structural features of Hungarian public employment facilitate the preserving of the status quo as well as individual coping strategies (exit) instead of collective action (voice). This structural weakness is coupled with an institutional framework that has similar effects. In assessing the institutional circumstances of interest-representation in the public sector, I will examine union density, fragmentation of the union movement and the bargaining system. None of these characteristics is able to counterbalance structural weaknesses.

Although density rates are not perfect measures to decide the strength of unions, they give us a good proxy to identify some general processes in labour relations. In the period we examine, union density rates in the public sector were still above the private sector but declined rapidly, meaning a convergence between the two sectors. Again, healthcare and education bore the brunt: Table 3.3 indicates that from 2001 to 2009 union density in healthcare dropped by 13.8 percentage points to 20 percent, in education by 15.5 percentage points to 23.9 percent. In the meantime, unions in public administration, defence and compulsory social security proved to be quite resilient (6.9 percent decrease in 8 years.) The period includes the reforms as well, but we will see that the government did not impose any measures discouraging union membership. So these negative tendencies are independent of the actual political situation.

Table 3.3: Union density in Hungary 2001-2009 (percent)

	2001	2004	2009
national average	19,7	18,7	12
healthcare	33,8	26,3	20
public administration	29,30	26	22,4
education	39,4	29,3	23,9
transportation	40	34,2	27,5

Source: Munkaerőpiaci tükö 2009: 295

The divisions that prevail throughout the Hungarian union movement in general are also present within the public sector. Again, this is difficult to support with straightforward statistics, because there is no clear-cut divide between public and private sector unions. Unions operating in the public sector can join mainly private sector union confederations and vice versa. However, by far the largest union confederation is SZEZ (Szakszervezetek Együttműködési Fóruma - Forum for the Co-operation of Trade Unions) with 257 thousand members in 2007 (<http://www.sze.hu/bemutakozunk/kik-vagyunk>). SZEZ is explicitly organized as a confederation for public sector employees. In the 2004 election of public employee councils, SZEZ got 51,78 percent of votes (Berki 2006: 117). The second largest group, ÉSZT (Értelmiségi Szakszervezeti Tömörülés Confederation of Unions of Intellectuals) received 6.36 percent. The main challenger of these established trade unions is LIGA ("League" – National Association of Hungarian Trade Unions), which took a more militant stance in recent years and started an aggressive recruiting campaign in 2006 (Heti Világgazdaság, 14 October 2006: 138). LIGA also has substantial presence in the private sector.

Paradoxically enough, the best circumstances for interest-representation can be found on the top level. From 1991 on, under different names and with different scope of authority there has been an independent peak-level tripartite bargaining body for public service employees and civil servants. Apart from central government (usually represented by the ministry responsible for social and labour affairs) and union confederations, representatives of local governments also participate, hence the tripartite structure. Although the conservative government of 1998-2002 decentralized and weakened this institution (Berki 2006: 110), the successor socialist government took a more cooperative stance towards unions and reintroduced encompassing bargaining institutions. (Berki 2006: 111) In the public sector, the National Council for the Reconciliation of Interest in Public Services (OKÉT) was set up,

which is responsible for creating an “institutional framework to conclude agreements covering all public sector employees”. (Berki 2006: 112)

However, due to internal problems present on all three sides, peak level bargaining has only limited results; in itself it does not guarantee stability in the sector. First, it can happen that one of the unions prefers a more combative stance and shuns agreements in this forum, as it happened in 2006. (Heti Világgazdaság, 16 December 2006: 107) Moreover, there were constant disputes concerning representativeness among unions. (Berki 2006: 113) The problem lies not only on the employee side. The nature of party competition and the conflicts between the central government and local governments can also undermine long-term compromises. Therefore, the role of OKÉT is constrained to year-to-year basis general wage agreements. Even if other agreements are concluded, it is very hard to enforce them. First, agreements have no legal binding force (Berki 2006:111). Second, it is difficult to coordinate the practices of decentralized local actors. For example, local councils can pay more or can keep the employees in even very badly functioning hospitals if they have the financial means.

In sum, neither the structural nor the institutional features of public sector employment are favourable to collective action. Exit options are available, internal divisions and institutional weakness prevail. Nevertheless, public sector employees also exhibit a very strong status quo bias that at least opens the possibility for defensive collective action, especially if the government measures do not only target wages but employment conditions and the second economy as well. This assumption is also supported by historical evidence. The 1995 stabilization package triggered a wave of protest in which state employees took the lead and forced the government to withdraw some of the measures (Tóth 2001: 49) We also have to stress that these measures only lowered public sector wages (contained costs), but comprehensive reforms including commodification and re-calibration were not part of the immediate agenda. Healthcare restructuring was planned in a later phase, but the whole idea

was dropped after the finance minister (Lajos Bokros) resigned. (Nelson 2001: 255) As we shall see, the 2006-2007 reform process combined the cost-containment, re-commodification and re-callibration aspects, thereby drastically upsetting the status quo.

Before moving on to analyzing the 2006-2007 reform measures I want to highlight that there is a possibility to exert “individual voice” by protest voting. This way of expressing discontent was one of the most prevalent throughout the transition period (Greskovits 1998: 82). Therefore, we can assume that amongst those public sector workers whose position is not immediately threatened, anger can “wait” until the next election or referendum. In Hungary, there was a way to express discontent through vote in the March 2008 social referendum initiated by the opposition.

3.2 The reform process

In this chapter I will discuss the main features of the reform process that started in 2006 in the Hungarian public sector, focusing on the employment aspects. From my point of view, the Hungarian case is especially relevant to the study of the industrial relations aspects of welfare state reforms, as here reforms explicitly and primarily targeted welfare services instead of transfers. The process was mainly triggered by fiscal considerations and therefore the measures taken were mostly about cost-containment. However they were coupled with re-callibration and re-commodification attempts as well. The reforms comprehensively targeted each part of the public sector (administration, healthcare, education), but they were the most sweeping in healthcare and the less radical in public administration.

As a result of a welfare populist, pro-cyclical fiscal policy period between 2001 and 2006 – motivated mainly by a cut-throat party competition (Bohle-Greskovits 2009) – the deficit of the Hungarian budget rocketed to 9,2 percent of the GDP. This was the highest level in the European Union at that time. (EUROSTAT) Pressure from international financial markets and the European Union forced the re-elected socialist – liberal government coalition

to curb the deficit by taking severe austerity measures. Although international financial institutions and mainstream economists offer some general guidelines when it comes to balancing budgets, the Hungarian government in 2006 was still in the position to design a discretionary plan of adjustment that focused on increasing taxes on the income side and containing public sector costs on the expenditure side of the budget while leaving welfare transfers largely intact. (Magyar Köztársaság Kormánya 2006a, Magyar Köztársaság Kormánya 2006b)

In fact, regarding the expenditure side of the 2006-2008 budgets, one can notice that the measures taken by the government left the transfer side of the welfare state largely untouched, while they hit hard on the public sector. The relative value of pensions, family allowance and unemployment benefits compared to average wages in the private sector increased or stagnated throughout the period, while taken the same benchmark, public sector wages fell significantly. (See Table 3.4) As we shall see it in more detail later, the number of employees in the public sector declined even more drastically. It is worth noting here that the stabilization measures on the income side of the budget also hurt public sector employees disproportionately (Központi Statisztikai Hivatal 2009), and usually they have less possibility to evade taxes than those employed in the private sector.

Table 3.4: Trends in welfare transfers and public sector employment in Hungary, 2005-2008

	the relative value of ¹				number of employees in the public sector ²
	pensions	family allowance	unemployment benefit	public sector wages	
2005	44	9	29	89	100
2006	45	14	28	86	98
2007	49	15	30	86	93
2008	50	N/A	30	85	90

Source: own calculations based on KSH Statdat tables

¹ in percentage of average private sector wages for intellectual worker

² 2005=100

Apart from cost containment, the government also emphasized recalibration as an important goal of the reforms: it was proclaimed that the measures do not only intend to make public services cheaper but also more equitable and more adaptive to consumer needs. The government extensively used the double catchwords of justice and efficiency. (Magyar Köztársaság Kormánya 2006a) In the case of public administration, recalibration meant cutting red tape by facilitating easier access of citizens and businesses to administrative services. Recalibration was also a very important aspect of the healthcare and education reform. In the case of healthcare the main challenge was to help the shift from an ‘overhospitalized’ system to an outpatient- and prevention-centred one. In addition, the aging society called forth more employment in the social and elderly care sector.

The third element of the ‘Piersonian’ typology, namely recommodification remained a controversial issue even on the level of government rhetoric, with the liberals seeing it as the only possible way of creating incentives, achieve the efficient use of resources and empowering consumers versus service-providers. By contrast, the socialists remained less enthusiastic and promoted alternative ways of achieving these goals. In the case of “public sector human relations”, employment flexibility can be achieved in two ways. The government can keep the special status of public sector employees, while adjusting their employment conditions to private sector standards. The laws regulating public sector employment were in fact modified in a bid to resemble the rules of the general labour code and thereby reducing job security. (European Industrial Relations Observatory Online, 2006 december 19.) Compulsory probationary period was introduced and period of notice was shortened. Besides, new regulatory and overview bodies were set up in healthcare to put pressure on providers without marketization. (Heti Világgazdaság April 11 2007: 54) These measures were largely accepted by both governing parties.

The other, more drastic way to introduce incentives in the public sector. Re-commodification has very serious limits in central government, defense and even in public education, but the background services of administration and healthcare in general were severely affected. We also have to add that in some cases formal re-commodification do not help either cost-containment or re-calibration. The usual practice of outsourcing background activities of the central government (for example advisory or accounting functions) is not necessarily the best way to curb costs. A report published by the State Audit Office in 2007 pointed out that while personal costs in public administration fell as a result of outsourcing, the same move pushed up material expenses by 440 billion forints. (Heti Világgazdaság March 10 2008: 61)

When talking about recommodification we have to stress that it is not necessarily a government-induced process. The government sometimes only tries to keep pace with spontaneous processes and channel them in a direction that suits its goals. The reforms in healthcare for example were not so much about redrawing the boundaries between the public and the private sector but about drawing these boundaries at all. As I discussed it in the previous chapter, the Kádárist compromise – that was largely about intentionally blurring the lines between private and public, legal and illegal – survived in the healthcare long after the transition in the form of a substantial second economy. In addition, very substantial parts of healthcare were privatized prior to 2006. General practitioners run their offices as enterprises since (Kornai 2001:198) Lastly, as the operators of the majority of education and healthcare institutions are local governments, in most cases it is not the central government but these lower levels of administration who initiate re-commodification. Naturally, the government can create a “conducive environment” by changing the laws or by reducing central subsidies. Again, local governments can prefer alternative ways of de-statization: for example they can invite churches to operate local schools, as this happened in Hungary in several cases.

3.3 The effects of government measures on public sector wage and employment conditions

The most obvious measures of how cost containment affects public sector employees are the wage trends. As we can see from Table 3.5, from 2006 on fiscal austerity largely eroded the wage hike that was given to public sector workers in 2002 as part of a general welfare package. However, the measures left public administration largely untouched while cutting the already lower wages of education and health workers. Not just pay cuts were severe, but in the case of teachers, the compulsory minimum working hours were increased as well, which led to lay-offs as well.

Table 3.5: Wages in the general government sector, intellectual work

	2001	2002	2003	2004	2005	2006	2007	2008
general government	78	87	93	85	89	86	86	85
public administration, defence, compulsory social security	100	111	108	97	102	100	103	101
education	69	78	87	80	84	81	80	79
health- and social care	60	68	78	72	74	71	71	69

as percentage of average wages in private sector intellectual work

Source: KSH Statdat tables

But it was not only cost containment that modified wage arrangement in the public sector. During the reforms, increasing the role of performance-related pay was a constant issue. (European Industrial Relations Observatory Online december 19 2006) The government's efforts in this direction were also part of the bid to introduce private sector 'best practices' to the public sector without outright privatization. However, the implementation of these plans was undermined by the cost containment itself. Redistributing the same or less amount of money in a more competitive system means that somebody has to lose even more.

The complete overhaul of the civil servant and public sector employee pay scale was not a task that even the reform-minded government dared to embark on.

To assess the employment effects of the measures I will take a sectoral approach and analyze how many employers were cut in the public sector and how many of them found a job (or was transferred by privatization) to the private sector. Here, at first sight we found that public administration lost the most employees, healthcare showed signs of restructuring towards private employment, while in education the status quo was preserved. However, one need to be careful when evaluating these processes. In public administration, restructuring also happened through outsourcing, which is not present in employment statistics. In education, the status quo was due to a legal change in the employment status of a significant group of physical employees. In healthcare, government measures strengthened already existing restricting processes but these processes were not generated by them. I will also emphasize the dividing and pacifying tactics applied by the government in the form of retirement schemes and sending away mainly physical workforce.

Table 3.6 summarizes the main employment effects of the reforms, broken down according to specific groups of employees. From 2006 to 2007 we can spot the most dramatic decline in administration (14.3 percent). In the same period, 6 percent of public sector healthcare workers were also made redundant, while a 7.6 increase can be observed in education. The next period (2007-2008) saw a reversal of the roles. Negative trends slowed down in administration (1.9 percent minus) and healthcare (2.4 percent minus), at the same time they started in education with a sharp reduction of workplaces (-6.7 percent). Private healthcare employment witnessed a substantial increase in both periods (15.8 percent in 2006/2007 and 12.8 in 2007/2008). In sum, healthcare employment data supports our claim about the comprehensiveness of reforms in the sense that besides cost-containment serious re-commodification took place in the period.

Table 3.6: Change in the number of public sector employees 2006-2008 (year-to-year basis, in percentage)

	public administration, defence, compulsory social security		education		health- and social care	
	2006/2007	2007/2008	2006/2007	2007/2008	2006/2007	2007/2008
total employed	-14,3%	-1,9%	7,8%	-5,0%	-3, 0%	0,1%
general gvt	-14,3%	-1,9%	7,6%	-5,7%	-6,0%	-2,4%
intellectual	-9,1%	-2,1%	0,4%	-6,7%	-5,1%	-0,5%
physical	-12,9%	-1,1%	56,7%	-1,1%	-8,7%	-7,9%
private	N/A	N/A	9,8%	3,3%	15,8%	12,8%

Source: own calculations based on KSH Statdat tables

On the other hand, the drastic lay-offs in public administration and the ambiguous processes in education do not seem to fit the picture. Still, if one looks at administration employment figures in more detail, it turns out that “ordinary” public sector employees and not carrier civil servants were axed. In 2006, 33 thousand employees from this lower status category were removed from the sector, more than half of the total, while only four thousand carrier civil servants had the same fate. By 2008, the shedding of public sector employees continued, although with a slower pace (minus 16 percent from 2007), but the number of

carrier civil servants already increased. (KSH 2010) Table 3.6 also tells us that blue-collar workers were sent away in relatively larger numbers than their white-collar counterparts. Moreover, as we mentioned some paragraphs before, outsourcing was also a practice in central government, which in fact increased the role of private firms in (white-collar) background activities even if it is not indicated by statistics. Concerning education, the slight increase in the period 2006-2007 was presumably a result of a change in the legal environment that forced vocational schools to include trainers as members of their personnel. (ECOSTAT 2007)

Finally, the healthcare data represented in the table also needs some additional information. The dynamic expansion of private employment in healthcare started as early as 2002, but it seems that the measures of 2006/2007 accelerated this process. KSH statistics also suggests that re-calibration took a momentum as social care services expanded at the expense of healthcare. From 2006 to 2007, the number of employees in social care increased by 18 percent, while employment in “healthcare proper” fell by 15 percent in the same period. Nevertheless, as total employment also decreased slightly, the expansion of the private sector and the social care segment could not counteract the decline in state-run healthcare.

Before moving to analyzing public sector employees’ reactions to the measures, we have to emphasize, that the government also took explicit pacifying measures to cushion the social effects of public sector restructuring. The most successful among these was the early retirement scheme (Neumann-Tóth-Berki 2008, European Industrial Relations Observatory Online-Hungary, December 19 2006) On the other hand, active labour market policy tools like retraining were less popular. (Heti Világgazdaság, March 10 2008: 61)

3.4 Employees' reaction to the reforms – divided we fall?

For the reform period of 2006-2008 we found a controversial pattern of labour relations and collective actions. Peak level tripartite bargaining kept functioning with on a limited number of issues (mostly in relation to wages), but the restructuring measures also triggered protest. Contentious action was the most pronounced in healthcare, where the comprehensive and penetrative reform steps (that were not only about cost-containment but also about recommodification) were met by a similarly aggressive opposition from the alliance of doctors' associations and nurses' unions. Education was less contentious partly because of the more cautious path of reforms and partly because the main union in the sector was more moderate than its counterpart in healthcare and preferred negotiations instead of open confrontation. Besides, public administration and defence workers had limited right to collective action and as we saw they were the least hit by the reforms as well.

Throughout the period, *fragmentation increased* inside the labour movement with militant unions grouping around the LIGA confederation while moderate ones staying in SZEF. Political party-union links also strengthened, especially on the right, between FIDESZ and LIGA. The year 2008 brought a setback not only for reforms but for welfare sector protest as well. The localization of protest took place, and workers of state-owned enterprises in the transportation sector took the attention of public. Throughout the whole period, labour protest remained less conspicuous compared to anti-government demonstrations of the far right and it was the main opposition party's successful referendum that eventually derailed reforms.

During public sector reforms, governments can hurt employee interests not only by direct measures of pay cuts, lay-offs and privatization but also by reducing their interest-representation capacities. Sometimes changing the rules of the game is a necessary condition of pushing through reforms. It is not a surprise that the most comprehensive welfare service restructuring carried out by the Thatcher government in the United Kingdom in the 1980s also

had the explicit goal of breaking union power. (Corby-White 1999: 10) The public sector was not an exception: collective bargaining rights were withdrawn from schoolteachers and certain civil servants to increase flexibility, in some government offices even union membership rights were taken away (Mathieson-Corby 1999: 200). However, these steps also made public sector unions more militant and they still fared better compared to their counterparts in the private domain. (Mathieson-Corby 1999: 199)

The Hungarian case is a paradox in this respect. In the course of the reforms the government left all the formal interest-reconciliation institutions in place: national tripartite as well as public sector bargaining councils kept working throughout the period. (European Industrial Relations Observatory Online: September 6 2006, 19 December 2006, 2 April 2007) Unions' legal status also remained safe, however there were constant debates about compulsory minimum service in case of industrial actions. The government changed the rules of the game only in healthcare, where employees' compulsory membership in professional associations was abolished. On the other hand, even this measure cannot be considered as completely detrimental to interest-representation capacity. The upside of losing official authority functions was that these associations were allowed to explicitly pursue interest representation. (European Industrial Relations Observatory Online: 27 Apr 2007)

However, it seems that the government did not jeopardize too much by keeping these institutions, because eventually the employee side proved to be quite submissive. Although the 2006 wage agreement that was struck before elections was swept away by the austerity measures, wage agreements were reached both in 2007 and 2008 (European Industrial Relations Observatory Online: 26 June 2007, 4 March 2008), with public sector unions accepting lower wage increase than the private sector. This is another serious blow against the sheltered sector hypothesis and it rather seems to support David Ost's argument about illusory corporatism in Eastern Europe (Ost 2000). Apart from wage setting (related to the cost-

containment part of the measures), public sector tripartite institutions did not have too much say in other questions of the restructuring process. The government was in a rush and even if it presented its plans to the social partners, usually it gave them only some weeks to discuss a complete restructuring plan. (Heti Világgazdaság September 9 2006)

As a reaction to the perceived weakness of national level bargaining, more militant unions seek to take industrial action individually, independent of the developments in the tripartite forum. In education the LIGA-affiliated PDSZ (Democratic Union of Teachers), organized a general strike for December 2006, even though negotiations were still under way in the OKÉT. (Heti Világgazdaság 16 december 2006: 107) In healthcare, the two main actors were both hostile to any government measures. However, as Table 3.7 indicates, strikes themselves could not have meant a strong weapon in public sector unions' hand. In general, public sector workers are in a peculiar position in terms of how capable are they for strike actions. On the one hand they enjoy stable employment position, so they should not be deterred from going on strike. On the other hand, several constraints reduce their capacities. Strikes are prohibited by law in defence and severely constrained in public administration (Berki 2006:109). Besides, there is a minimum (sufficient) level of services in healthcare and education that also must be provided. Still, taken all these caveats, Table 3.7 shows a dismal trend in public sector strike actions, especially compared to the wave of protests in 1995. At that time, the number of working days lost per 1000 education employee because of strikes was more than seven times higher (492,3) than in 2007. This is not compensated by the fact that in 1995 healthcare workers did not go on strike, while they did so in 2007.

Table 3.7: Strikes and lockouts – Rates of days not worked per 1000 employee

	1995	2005	2006	2007
Education	492,3	0,0	14,80	68,1
Health and social work	0	0,0	0,0	10,5
Transport, Storage and Communication	421,5	0,4	0,0	22,7

Source: ILO Laborsta

Nevertheless, strikes are not the only way to express discontent and influence decision makers. Alternative modes of protest in fact gained popularity throughout the period. (Berki 2009) These actions (most of them street protests) took place in local level healthcare. (Berki 2009: 3) Allied with FIDESZ, the main union in the sector, EDDSZ (Democratic Union of Healthcare Workers) protested continuously against the privatization of a regional hospital in the town of Eger. This struggle became a symbolic issue in debates around healthcare reform. The fears of employees were grounded in the sense that with the privatization, a large group of them would have lost employment, and all of them would have lost public service employee status. (Heti Világgazdaság: 7 July 2007, 8 December 2007, February 29 2008) Matching our expectations, they reacted fiercely to recommodification attempts. On the other hand, several FIDESZ-led local government also transformed their hospitals into a corporate legal form, but in these cases EDDSZ abstained from demonstration.

This leads us to our main claim regarding employee reactions to the reform process. Instead of uniting the Hungarian labour movement, the reaction to the reforms only strengthened politically based cleavages. Militant (and usually low membership) unions allied with the main opposition party and took the lead in protesting against restructuring, while accusing “mainstream” unions that they were corrupted by the government – which claim found some resonance in light of the outcome of the tripartite bargaining results we mentioned above. Strong trade union- political party ties are not exclusive to Hungary or Eastern Europe. However, as Sabina Avdagic (2004) pointed out, these relations are asymmetric and favour political parties in this region. In 2007, ties between the opposition party FIDESZ and the LIGA confederation became explicit and strong. At that time the smaller teacher union (PDSZ) and - if we count it in the public sector - an influential rail worker union was the member of LIGA from the public sector. Since then a police union, the Hungarian Doctors’ Association (Berki 2009:5) joined. Lately, EDDSZ also found its way to

LIGA. LIGA and FIDESZ joined forces in making a decisive blow against the symbolic elements of the reforms (against fees for visiting the doctors and for staying in hospitals and tuition fee in higher education). The referendum brought a humiliating defeat for the government. Reforms were frozen, the healthcare minister was dismissed and plans for introducing private investors in the compulsory healthcare insurance system were dropped. (Heti Világgazdaság, 5 April 2008) The coalition split up and the long-lasting agony of the single-party socialist government started.

Although 2008 put an end to the reform momentum, it also saw the localization of labour protest along political lines and the public attention was drawn away from the protest of welfare state employees to those working in state-owned companies: railway workers, bus drivers. (Berki 2009) The protest around the privatization of the Eger hospital continued, and although the private company eventually took over the institution, it went bankrupt as reforms the national healthcare policy took a turn in favour of status quo. (Heti Világgazdaság July 10 2010)

Finally, the standstill of the comprehensive reform process in general does not alter the fact that substantial elements of it will remain in place. The need for cost-containment and recalibration is accepted by every actor, and the re-commodifying elements are also there in the form of local, already legalized and semi-legal practices. Most importantly, the eventual fall of government policies was not a result of public sector employee or public sector union protest, but a referendum initiated by the main opposition party.

CONCLUSION

In my thesis I focused on the public sector employment aspects of welfare state restructuring in the Hungary. I discussed the comprehensive reform process that started in 2006 and argued that it resulted in a lose-lose outcome for both the government and the public sector employee side. The government's failure was to a large extent due to its inability to balance successfully between different aspects of the reform – cost containment, recalibration and recommodification (Pierson 2001) – and take advantage of the internal divisions of the public sector. Instead it took a shock-therapy style approach which under the current circumstances of extreme uncertainty and status quo bias could not work out.

On the other side of the table, long-standing structural and institutional weaknesses of interest-articulation prevented public sector employees and trade unions from exerting a decisive blow against restructuring. The government measures increased labour movement fragmentation along political lines and it was the fierce resistance of the parliamentary opposition that eventually derailed reforms. The main conclusion of my thesis in the context of industrial relations and welfare state restructuring literature is that one cannot generally treat public sector employees as more powerful and capable of resisting reforms than the private sphere. Collective action problems are as pervasive in the public as in the private sector and high degrees of uncertainty and “reformed” socialist legacies just sharpen this.

On the practical level, the main implication of my thesis concerns the need and possibility of a corporatist arrangement in the public sector - a long-term compromise between the government and employees about wages, the number of employees and working conditions. The mounting challenges (fiscal discipline, demographic and social changes) that the welfare state has to face clearly call for a long-term agreement that incorporates and reconciles the interests of government and public sectors employees. This arrangement could create stability and channel the pressures mentioned above into a predictable direction. On the

other hand, chances are low to achieve any kind of long-term arrangement in the public sector if certain conditions are missing. The lack of corporatist traditions, the complexity of issues present in welfare state reform, the internal divisions on the employer and the employee side as well as instant financial pressures can preclude long-term compromise.

One might assume that coming to an accord about public sector restructuring is an easier task than reaching a national-level tripartite agreement about general economic issues. In the former case the state is the employer, so there is only two parties that need to come to an accord, whereas in the latter case, the interests of three parties has to be coordinated (employers, employees, state), not to mention the possible intra-class divisions, e.g. between sheltered and non-sheltered sectors. So if we see that tripartite neo-corporatist arrangements are indeed functioning and even a new wave of social pacts swept through Europe in the 1990s (Hassel 2003), shouldn't it be easier to coordinate the interests of only two sides? The answer is: not necessarily. First, if a country does not have much experience with tripartite bargaining in general, bipartite bargaining should also prove to be difficult. It is not necessary the number of bargaining partners that matters but their attitude, the credible behavior in the sense that they are able to keep promises and force also their members to act in accordance with the agreement. (Traxler 2009: 51) However, tying one's hands (accepting wage restraint) is not always an attractive option. And this is true not only for the employee side. In the case of Hungarian public sector wages, a corporatist arrangement would have prevented the government from increasing wages drastically in 2002 as part of a party-competition induced populist welfare package. It was not the unions but the government who acted irresponsibly in Hungary as well. (Bohle-Greskovits 2009: 362)

Apart from credibility problems, the complexity of issues makes public sector pacts even more difficult to achieve. While tripartite corporatism concentrates on wage settlement (Traxler-Brandl 2009), any kind of public service agreement necessarily has a strong and

direct employment and work condition part as well. Even though tripartite agreements aim at increasing employment (and to curb inflation) they want to achieve these goals mostly indirectly, through the setting of wage levels. They basically leave market mechanisms to “do rest of the work”. Satisfying consumer demand is also something that is left in the domain of competing private actors. By contrast, public sector restructuring (as in the case of Hungary) sometimes has exactly the opposite goal in terms of employment: it wants to decrease the number of workers. To make this acceptable to the public sector union side is not an easy task in the first place. Second, as the notion of recalibration (Pierson 2001) duly expresses, during public sector reforms the state may also act as the representative of consumer interests. When this happens, the content of public sector work also gets into the spotlight and the bargaining set-up might also turn tripartite, with consumer interests also present.

On top of that, we have also seen on the Hungarian example that fragmentation can prevail on both side of the negotiating table. There could be conflict not only among unions representing different professional and political interests but also between the central and local level of government. It is not by chance that the main Hungarian public sector interest reconciliation is actually tripartite; representatives of local governments are present as the third side. Finally, so long as the reforms are triggered by immediate financial pressures – as was the case in Hungary in 2006 or in several other European countries (Greece, Italy, Spain, and Portugal) after the financial crisis- the chances of any kind of long term agreements are very low. It is very dangerous to confuse reforms with austerity. Efficient governance, education and healthcare constitute the basis of successful post-industrial societies, but any quality-improving structural reform is impossible without motivating the most important actors, namely those working in these sectors. Fiscal austerity is especially not conducive to successful structural changes.

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