

Fighting the decline: union strategies for survival in Romania and Poland

By

Adascalitei Dragos

Submitted to

Central European University

Department of Political Science

In partial fulfillment of the requirements for the degree of Master of Arts in Political Science

Supervisor: Prof. Bela Greskovits

June 2011

Abstract

Labor weakness in Central and Eastern Europe has been most of the times explained by using path-dependency theories. However, these explanations are skewed for explaining similarities among cases rather than differences. This thesis contests the explanatory power of these models and argues that they fail to account for variation in the labor strength in ECE countries. Instead, it proposes a strategic interaction explanation by focusing on the coalitions, politics at the workplace and union's innovative strategies in attracting new members. Therefore, the main premise of this paper is that labor seeks to improve or at least preserve its status by mobilization, strategic participation and broadening solidarity. Romania and Poland were chosen for making a case for labor strength both because of their similarities and differences. Initially, labor in both countries displayed higher rates of participation, protest and density than other states in ECE countries. However, by the end of the transition period Polish labor seemed to be unable to act and organize while, against all odds, the Romanian labor succeeded in keeping its relative strength. This is revealed especially by the 2000-2003 negotiations for the Labor Code.

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RESEARCH OUTLINE

Numerous studies on Central European labor sought to explain why labor is a weak social actor and what determines this weakness. Yet the literature has not reached an agreement on whether labor is indeed weak and what this weakness actually is. In this thesis I address this ambiguity about labor position by looking at two cases: Romania and Poland between 1990 and 2004. The questions which I ask are: What explains labor strength in the two countries? Is labor indeed a weak social and political actor or is it that its weakness is confined by the type of analysis which is employed to explain its position? And finally, if labor is indeed weak why do governments still seek its support?

The first chapter puts these questions into context. I review the literature which seeks to explain the position of labor during the post-communist transition and argue that it supports contradictory claims. The path dependency literature brings evidence that the trade unions occupied only a marginal position through the transition period. Limited by their history of being extensions of the socialist parties they failed to adapt to the conditions of the capitalist system and succumbed into merely formal organizations. The transitional recession deepened this crisis and produced massive membership losses, fragmentation and inter-union competition. Marginalized by the other actors, the unions failed to come up with an alternative to the neoliberal project. They ended up as being only formal organizations without any substantive influence on the policies which affected workers.

The strategic interaction literature provides a more optimistic description of labor's influence. What matters is that trade unions survived and they have been capable of delivering *some* benefits to workers. Improved legal provisions, better working conditions, the right to organize and welfare provisions stand out as main examples. They voiced worker's grievances and brought them in the attention of governments either through protests

or through negotiations inside the tripartite bodies.

I challenge these explanations and argue that a full account of labor' position in transition must consider both the legacy of the unions and the choices they made during transition. I put forward an explanation which relies on the coalitions at the workplace and the resources which unions have been able to defend during transition. I chose two cases Romania and Poland, because of their initial similarities and their divergent path in the second period of transition.

Chapter 2 will deal with the initial phase and the overthrow of the communist regime in two countries (Romania 1989 – 1996, Poland 1989 - 1994). This period overlaps in both countries with the first shift in power since the fall of communism. Here I will discuss the role of trade unions during state socialism, what resources they had in the beginning of the transition process, how they influenced the privatization plans and to what extent they were successful in securing for themselves a place in the post-communist political arena. In both cases at the national level the tripartite institutions functioned merely as tools in the hands of governments to control the labor movement. However, the Romanian unions achieved their goals by intense mobilization of workers and constant wage pressure. They used their influence at the workplace to extract rents from the state and slow down the privatization process. By comparison, Polish unions gave up on their workplace influence and exclusively focused on the national level politics which weakened their membership base and their ties with the rank and file.

Further I explain that the most important strategic choice made by the Romanian unions during transition was to defend their positions at the workplace. This gave them leverage in bargaining with the government and secured them an advantageous position in negotiations for the privatization of the state owned enterprises. When the government tried to avoid union involvement in the privatization process, unions responded by mobilizing

workers and launching work stoppages. If their demands would not be met, the major confederations would call for nationwide strikes and work stoppages. In 1991 the nationwide strike resulted in the resignation of the Petre Roman government and in 1999 the miner's strike led to the resignation of the Radu Vasile government.

The following section argues that the Romanian government did not have the capacity to pursue policy reforms by itself and break the union influence at the workplace. By comparison the Polish government had the power to unilaterally pursue reforms and disregard the unions. Employee influence was reduced throughout the 90's and state owned enterprises were privatized without taking into account insider's interests. Two key moments in the history of the Polish privatization are the Enterprise Pact adopted in 1993 and the Law on Privatization adopted in 1996 which limited union's influence over the faith of their companies.

Chapter 3 argues that by comparison with their Polish counterparts, Romanian unions secured a better position during transition. This was reflected in higher membership rates and better union coverage. A special attention will be paid to the three (2001, 2002 and 2004) Romanian social pacts which emerged in the beginning of the 2000's. In general terms, pressured by the international financial institutions and European Union, the Romanian government had to reform and speed up the privatization process but met opposition from the coalesced interests of the unions and managers. In order to respond to the international pressures the government signed three social pacts through which it committed itself to: increase wage benefits and coverage of collective agreements, to change the labor legislation and to improve social services for the workers. I argue that the Romanian social pacts are a proof of union power because of they led to higher welfare expenditure, more rights for workers and additional commitments from the government.

CHAPTER 1

1.1. Introduction

Employment relations have often been at the very center of the academic debates in Central and Eastern Europe (CEE). They are pertinent in the context of the “triple transition” to democracy as they touch the core of the social problems which emerged after the fall of communism. Offe (1997) argues that CEE countries had to go at the same time through an economic, political and socio-cultural transition. In this respect, the development of free and independent interest groups was a necessary precondition for successful reforms. In particular independent trade unions emerged as key actors to represent and defend worker’s interests.

Academic accounts of the union movement in CEE emphasized the problems faced by trade unions in the early phases of transition (Petkov and Thirkell 1991; Pollert 1999, 1997). A recurrent theme of these studies was the difficulty of legitimizing organizations which normally were only “transmission belts” of the communist parties. With the exception of Solidarity movement in Poland, trade unions were only instruments used for controlling workers and for disseminating the ideology of the party. Within this context, Romanian labor was even more under-developed: it had a precarious organization, fully dominated by the Party and had no ideological alternatives as no opposition movement emerged in Romania throughout socialism. Therefore it is not by chance that protest levels in Romania during the Communist period were low even by East European standards (Pilat 2006).

Union movement was thus limited by its own identity problems and its legacy of old structures and started with a major handicap the road to capitalism. Likewise, the impact of the new economic conditions was not favorable for the existence of powerful trade unions. Industrial restructuring required the reduction and reorganization of the labor force. The “return to capitalism” was synonymous with the decline of the large state enterprises and the

collapse of national production, especially for the economies which were tied to the Council for Mutual Economic Assistance (CMEA). In social terms the impact of the economic transition was uneven across countries but overall it generated massive unemployment in the obsolete sectors. The lack of adequate social safety nets sentenced the unemployed to poverty and marginalization. In addition, the large informal sector and a still hefty agricultural sector negatively affected union membership levels.

Therefore trade unions faced a complete change of paradigm: on the identity level they had to create and re-create their image and legitimize themselves as actors of democratic politics; on the organizational level they had to shift from groups of mandatory membership to voluntary associations of employees and on the representation level they had to assert their autonomy from the state and confront profit-oriented managements, organized in employers' associations. Still, against all these obstacles trade unions managed to survive, and even more to adapt to the new environment.

New forms of trade unions developed across the region. Old monolithic unions were dismantled and new organizations were built as an expression of the democratic sentiment. Despite huge losses in membership some old unions such as OPZZ in Poland and CNSLR in Romania managed to survive and compete with the newly formed unions. However, pluralism came with a series of problems: first it led to fierce competition for members and resources among unions within the same branch or even the same company. In cases like Romania or Czech Republic the law required a very few number of workers to create new unions (15 and 3 respectively). Second, it made difficult to distribute the former trade union property. For example, in Hungary the results of the first works council election in 1992 also determined the mode of distribution which clearly disadvantaged the unions which arrived later on the scene (Kohl 2008).

Further, in the early stages of transition the institutional context remained mostly

underdeveloped. Although the idea of “social partnership” emerged in all post communist countries it was not translated into strong corporatist institutions. The so-called tripartite arrangements functioned as consultation mechanisms with no real impact on the policy process. Iankova (2002) emphasizes that tripartism played a crucial role on preserving the social peace and sheltering the system from a complete breakdown. However, protest data disconfirm this hypothesis. Transition started with a wave of protests across CEE in response to the effects of economic reforms. The protests continued in spite of efforts to institutionalize bargaining and in cases like Romania they increased throughout the transition period. Interestingly, protest levels do not correlate with the institutionalization of the bargaining process but follow another pattern: they are high in the sectors most affected by the transitional crisis as well as in the state sectors where welfare reforms were implemented.

In this indeterminate setting union activism was not captured by leftist parties or by national confederations which failed to control the rank and file. This made a second stream of authors to conclude that for late-comers in the capitalist system labor needed to be alienated since a successful transition necessitated a top down systemic change (Crowley and Ost 2001). Convinced that a free market requires a weak union movement elites answered to the economic anger of the losers of the reforms by channeling it across identity lines. Instead of incorporating worker’s demands and developing class based identities, elites gave up on labor which, left alone, was captured by illiberal organizations. Extremist parties such as The League of Polish Families (*Ligi polskich rodzin*) and Self Defense (*Samoobrona*) and right wing conservative parties like Law and Justice (*Prawo i sprawiedliwość*) picked up easy to grab votes from dissatisfied workers and triumphed in elections. The inevitable conclusion of these authors was that labor in Eastern Europe had to be weakened in order to achieve economic liberalism and once weakened was bound to remain weak in the future.

However, if this is the case we are left with some interesting puzzles to solve. If labor

is dead why do trade unions still organize worker's interests in CEE? Second, why do we still witness instances of labor cooperation? What are the conditions under which labor has the capacity to surpass its divisions and internal conflicts and reach consensus? Finally, if trade unions do not matter why are they still the largest civil society institutions in Central Europe?

Both neo-corporatist and pluralist theories fail to provide a compelling answer to the questions illustrated above. Pluralist theories differentiate among a) the inter-group competition and bargaining; b) voluntary membership, hence weak organizational control over members; c) multiple and overlapping organizational jurisdictions and d) the narrow definition of group goals combined with the exclusion from the system of those with too few resources to reach the organizational threshold (Berger 1983). Thus pluralism works well in relatively stable systems where actors are able to define their interests and identify other's interests as well. Similarly, pluralist theories can be applied in the cases where actor's preferences are rooted in sound political cleavages which allow the evaluation of systems' performance and output. However, the CEE cases do not fit this picture since the transition to democracy raised problems of credibility and preference identification among actors.

On the other hand, corporatism requires among others, strong and involved labor unions (peak associations), and governments which seek cooperation with social partners. Both of these conditions lacked in Central Europe. That's why "the appearance of tripartism should not be mistaken with the appearance of neocorporatism" (Pollert 2000). Instead, the role of tripartism was not to guarantee a "general political exchange" between labor organizations and the state but to focus union's attention along centralized lines without the necessary articulation between national and local union power (Crouch 1993).

1.2. Dismantling the legacy argument

The most compelling explanations for union strength in CEE cluster around the path dependency literature. The underlying assumption of these explanations is that the East European capitalist systems were not created in an institutional void but on the skeleton of the defunct socialist arrangements. A strong and a weak version of these arguments can be identified. According to the strong version of the argument, the neo-liberal principles introduced in CEE had to face the long standing impact of historical legacies. Crawford and Lijphart (1995) pointed out that the cultural and institutional structures created under the socialist rule are not just a shadow of the past but shape the environment in which the new institutions have to be created and will ultimately undermine the liberalization process itself. For Offe (1997) the state socialist institutions are “inimical” to the growth and development of democratic capitalist institutions because they produced a particular “state of mind” and a “set of expectations and assumptions”.

This would suggest that the old unions, when playing a role other than being formal organizations, would be detrimental to the capitalist system. As relics of the past they would defend their identity and values and will hamper the transformation process. Second, the creation of the new unions would be only a shallow endeavor, too weak to depart from the predefined set of pathways in which they are locked. Although they would simulate the appearance of democratic unions, internally they would use the same organizational processes which prevailed in the society they used to function.

A less pessimistic account is offered by the weak version of the path dependency arguments. Supporters of this view sustained that the path dependent argument leaves room for innovative decisions (Stark 1994, 1996; Stark and Bruszt 1998, 2001). For Stark the various privatization strategies adopted by East and Central European countries are a proof that governments can still implement different strategies which take into account national

cultural and historical heritage. In his words, the past provides “the institutional resources for change in the present” thus making the present a recombination of the bits from the past. Capitalism cannot be introduced “by design” but through “path extrication” from state socialism which results from mutations and reconfigurations of the pre-existing features of socialism.

For trade unions this meant that they would be caught in a contradictory position between their original purpose to serve as transmission belts for the socialist parties and their new status of acting in a capitalist economy and reacting to its requirements. Crowley (2004) argues that legacies had an institutional and an ideological impact on the post-communist trade unions. Institutionally the trade unions were established as organizations which would operate in an entirely different political economy. They normally were allies of the management and operated as social welfare agencies which distributed the resources obtained from the party. Ideologically, they faced significant problems of legitimacy because they stopped delivering up to their member’s expectations. In addition, both elites and the rank and file were unsure about their position towards capitalism.

Pollert (1999) subscribes to this vision. From her point of view, the trade unions are “schizophrenic” because they have to support the reform process while they are not satisfied with many of its aspects. At the same time the narrow range of ideological options limits the power of trade unions. Even though they “carve” a new identity, they do not have an alternative project to compete with the free market narrative. For unions such as Solidarity in Poland or Pdkrepa in Bulgaria which were built as anticommunist movements, once the enemy was defeated it became difficult to articulate a new mission.

While these theories have the merit for “bringing the history back in” to explain the decline of post-communist labor, they take a prescriptive position on the trade union debate. Thus socialist legacies are “bad”, unions’ involvement in politics is “harmful” and transitional

institutions “constrain” labor’s choices. However, tackling the complex topic of trade unions in transition requires a more open approach. The effects of the socialist legacies are not as clear as the above mentioned theories let us believe. There is evidence that old unions in countries like Slovenia managed to keep their ties with their constituencies after the fall of communism and concomitantly preserved the vitality of the labor movement (Stanojevic 2003). Also, union’s political involvement does not look as being the key variable in explaining labor’s weakness if we consider a comparison between two equally politicized labor movements such as Poland and Italy (Meardi 2004). Similarly, the political involvement of the trade unions in Romania secured them a considerable influence on labor legislation and access to important financial resources (Trif 2004).

Moreover the legacy argument suffers from a time inconsistency. If legacy best explains the position of post-communist unions, the logical question to be asked is what legacy then matters most? The question is relevant because some of the countries in the region such as Czech Republic and Romania had a history of trade unionism before the socialist period. Therefore, we are left with some missing links if we use exclusively the path dependency arguments to account for union strength in post-communism.

Yet even if we agree that labor is a weak actor we still do not know what “weakness” actually refers to (Crowley 2004). Up until now, the literature failed to provide a compelling answer to what it seeks to explain. The consensus however is that labor is weak and there are intra-regional variations in the post communist context. Thus “the more compelling task becomes not explaining variation within Eastern Europe but explaining this overall weakness in post-communist societies”(p. 428). Therefore the question remains: What is labor weakness and what explains it? In the following sections I provide an explanation for labor weakness (or strength) based on the interaction between trade unions, managers and the government. I contend that although organizationally the trade unions are not as powerful as

they used to be they still managed to secure benefits for the rank and file. I look at the Romanian case between 1990 and 2004 and I show that politically unions still matter because governments seek to bargain with unions when pursuing policy reforms.

1.3. Case selection

Much of the transitology literature has focused on the “most advanced” transition economies of the Visegrad group while other East European cases such as Romania have been mentioned mostly sporadically in general studies with low comparative value. Scholars who study the Romanian trade unionism often conclude that labor is a weak political actor, internally fragmented, politically involved and having an ambiguous relationship with its constituency (Kideckel 2002; Trif 2004, 2007, 2008; Vanhuyse 2007).

I address this gap by comparing two cases: Romania and Poland. Several considerations lie behind the selection of the two countries. First, in the initial phase of post-communism, union movements in both countries displayed similar features. High union membership and high levels of protests made union movements in both countries to be relatively successful in securing benefits for their members. Second, union politicization plays an important role in both countries. Third, initially the privatization of the state owned companies (SOE’s) in both countries went very slow. Unions secured sufficient power at the plant level to influence the privatization of their companies.

However, beginning with 1993 union movements the two countries started to diverge. Polish union movement suffered a spectacular membership decline while in Romania unions managed to partially preserve their membership assets. Further, while the Polish labor movement was “pacified” by mid’ 90’s, in Romania trade unions preferred to use the mobilization of workers as the principal tool to make their claims heard. Finally if by 1997 Poland was considered to be at the vanguard of political reform, Romania was placed in the

“transition laggards” category.

In both countries unions were, and still are heavily politicized. Although in Romania the political affiliation of the unions was banned by law the major confederations did have informal political commitments. CNSLR-Brotherhood and BNS support the Social Democratic Party while CSDR supports the Christian Democrats (Trif 2004). Initially BNS had a liberal ideology, sustaining shock therapy reforms. This right wing orientation of the union allowed it to obtain only two seats in Parliament during the 2000-2004 Legislature. Similarly, the leader of CSDR was appointed Prime Minister between 1996 and 1998 as a result of a coalition which included the Christian Democrats.

In the Polish case the unions mimic the left right divide. Solidarity assumed its activist, anti-communist identity long before the beginning of the transition period. Throughout the 80's the union which back then was a social movement, played a crucial role in ending the communist rule in Poland. Following the fall of communism, Solidarity participated in the first free elections and won all the seats for which it was allowed to compete. However, right after taking the control of the government it departed from the early idea of worker self management and “self governing republic” and switched its support to radical market reforms.

On the other side of the political spectrum, the OPZZ was formed in 1984 as a result of an alliance between the unions loyal to the Party. After 1989, OPZZ assumed a left wing ideology, which opened a timeless rivalry with the Solidarity union. The union labeled itself as the representative of the working class in the state owned enterprises. Although initially it was contested as a “collaborator” organization, once the effects of the economic reforms became noticeable to workers, OPZZ began to benefit from their disenchantment. Politically OPZZ supported the Democratic Left Alliance (SLD) which won the parliamentary elections in 1993.

Beside the political inclinations which characterize union movement in both countries there are important similarities in the evolution of organizational features of the unions. Membership losses marked the union movement ever since the beginning of the transition period. In Poland Solidarity claimed initially around 10 million members but by 1989 the membership was reduced to a quarter of the 1981 levels and by 2000 the union numbered around 1 million members (Kubicek 2004). In 2000 OPZZ claimed around 1.2 million members but controlling for the exaggerated figures provided by the union itself, its membership was estimated to be between 700.000 and 800.000 members. Romanian unions also suffered membership losses. CNSLR claimed in the 1990 a membership of over 2.5 million which by 2000 shrunk to 800.000 (Table 2).

In addition the labor movements in both countries are highly fragmented. Poland has three big confederations: NSZZ Solidarność, OPZZ and FZZ. They incorporate around 1.500 trade unions and 200 national federations (Ekiert and Kubik 1999). In Romania there are currently five main confederations which are considered to be representative. Mihes and Casale(1999) report that at the national level there are as many as twenty confederations which compete for members. This leads to low institutional consolidation of the federations and much overlapping at the company level.

Furthermore, in both countries the privatization process started in the 1990's and initially displayed fairly similar structural characteristics. In Poland strong unions created pressures for insider's privatizations. As much as 80 per cent of workers surveyed in the 1990 by the Polish Statistical Institute (CBOS) agreed that "shares of privatized state enterprises should always be sold first to their workers". With the government having split views about how privatization should proceed, workers secured an advantageous position in the Polish state owned enterprises. The Law on Privatization on State Owned Enterprises adopted in July 1990 gave workers formal power on management's decisions through the newly created

works councils and guaranteed them 20 percent of the company shares (at 50 percent price) with the possibility of gradually purchasing the company assets. To this end workers gained veto power on privatization decisions and very often resisted disenfranchisement.

Similarly, in Romania privatization started very slow. The executive had little knowledge about how privatization should proceed and, unlike in the Polish case, it received comparatively less help in terms of know how from foreign advisors. Partly, this situation was caused by the conservative position of the President who argued that reforms should proceed without foreign help. This created an ambiguous stance of the government towards state owned companies because although it sought to control them through political influence it had few resources to do so. In effect, unions and management seized the opportunity of taking control over the plants. In the early years privatization underwent mostly through “pilot” buyouts which meant that managers and workers were granted the priority to buy the shares of the companies. The consequences of this program were the large scale employee ownership and little foreign involvement resulting in strong insider’s interests and low governmental capacity to control the privatization process.

Let aside these similarities a striking fact is unveiled by the data. Between 1997 and 2006, on the trade union density indicator, Romania scores quite high for the region, and higher than EU average. Poland on the other hand, has the lowest trade union density score among the states in the region with a significant decrease each year. If we take as a proxy for union strength the welfare state expenditures the picture becomes even more puzzling: while Poland spends on welfare policies around 20 percent of its GDP (Table 1 below) Romania allocates much less resources for the same policies. Therefore a logical question to be

Table 1: Trade Union Density and Welfare State Expenditure in Romania and Poland (1997 - 2006)

		<i>1997</i>	<i>2001</i>	<i>2004</i>	<i>2006</i>
Union	Romania	46.1	40.1	38.5	33.7
Density	Poland	28.6	26	18	14.4
Welfare State	Romania	14.5	13.7	14.6	14
Expenditure	Poland	22.6	20.7	21.3	20.5

Sources: * for union density: Visser database 2009

* for Welfare State Expenditure: OECD databases and Romanian National Statistical Institute

asked here is what makes Romanian workers to keep the membership in the trade unions if in return they receive very low welfare benefits? Put differently, how to explain the erosion of labor membership assets in the Polish case and the relative preservation of union density in Romania?

1.4. Theoretical Considerations

As I discussed in the previous paragraphs the “legacy” based arguments cannot fully account for the “dramatic erosion of union power in post-communist democracies” (Vanhuysse 2009). From this point of view, macro-economic variables are important in determining whether the environment is conducive to union power. However, a complete explanation of union strength must take into account the purposive actions which unions undertake in order to cope with the adverse consequences of transition. A range of activities is included here from collective protests, strikes and lockouts to the use of institutional channels such as the tripartite bodies in order to keep or extend their influence on governmental policies. Therefore, while legacies are important in setting the general “frame” within which

actors compete for resources amongst each other, the actors are those who decide over which resources to use, what partners are to be trusted and what can be considered to be gains or losses.

I draw on Knoke *et.al* (1996) who developed an actor centered comparative theoretical framework to analyze labor's involvement in the policy-making for three advanced democracies. They rely on four analytical dimensions (or components) to investigate the national labor policy domains: *organizational actors, policy interests, power relations, and collective actions*. Each of these components interrelate across a series of policy decisions and allow a complete analysis of the policy making process.

The *organizational actors* comprise the formal organizations such as trade unions, federations, employers' associations and government institutions. Their most important characteristic is that they can mobilize sufficient resources to monitor and influence the policy making process. They enable individuals to coordinate and pool resources in order to influence the outcome of a policy decision. They mobilize resources to connect with and influence the national decision making process through maintaining a constant presence at the sites where decisions are made; to communicate their interests to the decision makers and to impose sanctions which will have an impact on other players.

The *policy interests* direct social actors towards specific ends and move them away from others. Hence, organizations which hold policy interests are likely to be involved in the activities where those interests are at stake. For example, unions of federations may be interested in collective bargaining, having either broad areas of focal concern or substantive matters such as wages, working hours, labor laws, working conditions etc. Some actors such as governments become issue entrepreneurs who promote and develop issues favorable to themselves while others may have a passive or reactive behavior. On the other hand actors may have general interests or be very specific in their scope. For trade unions, the more

specific issues they lobby the likelier for them to achieve their goals.

The *power relations* represent the key aspect of the framework. Two aspects are interesting here. First, from a relational point of view power denotes the capacity of some actors to change the behavior of the others. In the post-communist setting governments have been very often in the position to change or influence the behavior of the other actors. Trif (2008) emphasizes Romanian governments have always sought and often succeeded in controlling the demands of the trade unions through the tripartite institutions. In Poland, as Avdagic (2006) puts it, the government used a *party paternalism* strategy to get the union elites to give up on the rank and file and subordinate what used to be the strongest union in the country.

Second, power refers to the amount of resources which are in the possession of particular actors and their ability to use them for achieving their purposes. Beside material resources, which obviously are important, access to information and know how, efficient state agencies and access to international networks play a key role in securing an advantageous position. Actors which are not able to secure these resources will be marginalized from the decision making process.

The fourth dimension is *collective action* which refers to the attempts of the organizations to “bring sufficient political power to bear on other policy domain actors, most salient on the public authorities responsible for deciding a policy event, to sway the collective decision in their favor”(Knoke 1996). There is a variety of options for organizations which seek to influence the policy decisions ranging from coalition building to mass media publicity and directly lobbying decision makers. For my purpose, I will use only the first type of collective action: coalition building. The interesting question here is why the Romanian unions managed to overcome their fragmentation and ideological disputes and form coalitions whereas their Polish counterparts did not do so?

Unions enter in coalitions for a variety of reasons: to receive recognition of their interests from employers, to boost their bargaining power, to advocate for worker's rights or to acquire support for legislative change. The main role of the coalition partners is to provide unions the necessary means for achieving their goals. However, they also induce a risk for union's objectives. They might be unreliable or have a limited capacity to promote union goals.

Broadly speaking, coalitions are means by which unions access various resources from their partners while exchanging others. Unions may receive financial and physical resources such as support in strikes or access to networks of activists or paid staff. Also, unions may offer and receive access to new groups such as part-time or female workers. Another crucial resource is expertise: unions may provide expertise in labor related issues while coalition partners may provide specialist help in policy formulation. For example, coalition partners can provide technical advice on immigration, welfare issues or law related issues. Legitimacy is the other resource which unions seek to obtain by building coalitions. In post-communist contexts this has been an essential resource as, unions had to prove their break with the past and gain acceptance in the new democratic context. In addition, by associating themselves with other groups unions can take off the suspicion of “special interests” from themselves and act in concert with broader socially accepted goals. Last, coalitions allow mobilization for union goals as well as for partner's goals.

To sum up, this chapter engaged with the “transitology” literature and showed that there are still questions to be answered about the role and strength of trade unions in transition. It found that the “legacy” based arguments suffer from a series of inconsistencies and that a full account of the position of labor during transition should also consider the strategies which unions developed to adapt to the new environment. The next chapter will provide an in depth analysis of these strategies and their effect on labor position during

transition. It will also look at what resources were utilized by trade unions to achieve their goals and what channels of influence were preferred for bringing worker's demands on policymaker's agenda.

CHAPTER 2

2.1. The overthrow of socialism and the initial conditions for labor

Soon after the collapse of state socialism it became evident that labor's interests were marginal to policy makers. In Poland, Ost (2005) argues that elites were unwilling to organize workers and refused to incorporate their demands. Interestingly, the same happened in Romania, where the working class was seen as an "anachronistic artifact" by the elites and was referred to as a liability for a successful transition to democracy. However, the liberal elites were themselves marginalized by the government which, in search for popular support in elections granted extended rights to workers. From here the peculiar situation resulted where unsatisfied workers would protest to support the regime built by the National Salvation Front (NSF) and against intellectuals. On 28 of January 1990 on the streets of Bucharest slogans such as "We work, we don't think!" or "Death to intellectuals!" could be heard from protesters.

From this point of view the Romanian elites suffered a double failure. They were unsuccessful in capturing the feelings and anger of workers and they failed to spread their liberal agenda to government. In fact, the major theme of the Romanian post-communist elites discourse was the anticommunist narrative which clashed with the personal histories of many members of government. The upshot of this position was that elites have been powerless in influencing the outcomes of the political process which in the early years of transition was fully captured by the NSF and its allies.

Still, the Romanian labor movement became very active starting from the early phases of transition. According to the confession of one of the leaders of UGSR (General Union of Romanian Trade Unions) – the defunct communist trade union, on 22 of December 1989,

while people were still fighting on the street, he was already working to two new organizations: The Provisional Committee and the Free Trade Unions of Romania – “the forerunners of Romania’s largest modern confederation” (Carey 2004). Later that year, the newly formed “free union” received recognition from the self appointed leaders of the National Salvation Front (NSF) – the group who seized power after Ceausescu’s death.

Within several months, in the effervescent and chaotic atmosphere of the new regime, the Provisional Committee held elections and formed the National Confederation of Free Trade Unions of Romania (CNSLR). Consequently, CNSLR started to be politically active and offer support for NSF’s program.

Furthermore, other confederations appeared as well. Among the most influential was *Fratia* (The Brotherhood) which initially criticized the Provisional Committee as being a neo-communist organization. Composed mainly from truck drivers, *Fratia* achieved international recognition in a very short period of time by becoming a member of the International Confederation of Free Trade Unions. The third big trade union, *Cartel Alfa*, was formed in June 1991 and represented the workers in metal fabrication, steel, electronics, petrochemical and paper. Finally, in June 1991, National Trade Union Bloc was formed to represent the interests of the workers from energy industry, telecommunications, machine building, post and electronics. Beside the “big four” confederations, many other unions that remained unaffiliated were formed at the company level. Table 2 shows the membership data for the most important confederations in Romania. The data are based on the reports by National Romanian Statistical Institute as well as on the numbers reported by the trade unions themselves.

Table 2: Most important confederations in Romania by the year of establishment and membership

Year of establishment	Trade unions	Membership	Represented Sectors
1990	CNSLR-Brotherhood	800.000	Present in almost all the sectors
1991	BNS	375.000	Transports, energy, car manufacturing, telecommunications, health, public administration
1990	Cartel Alfa	325.000	Mines, education, banks, tourism, agriculture, transports, public administration
1994	CSDR	345.000	Education, health, food industry, textiles
1994	Meridian	170.000	Mining, metallurgy, chemicals

*Source: Pilat 2006

In Poland, neoliberalism was embraced both by political and cultural elites (Przeworski 1991). Neoliberal arguments emphasized the need for labor's quiescence and acceptance of economic reforms for an effective change to happen. Being the prevailing ideology, neoliberalism favored state's minimum role in the economy and marginalization of labor by powerful business (Iankova 2002). The main goal of the Solidarity led Mazowiecki government was a "government of national responsibility". The formula which was adopted was the Balcerowicz Plan, a policy backed by IMF and aimed at fighting state influence in the economy, containing hyperinflation and the opening of the national market.

The Balcerowicz Plan was in Schumpeterian terms a form of "creative destruction" (Schumpeter 1942). The reformers realized that the shock therapy would destroy many firms and industrial sectors but this was the price to be paid for institutional and structural transformation to take place. A competing view to liberalism was adopted by social democrats, which emphasized the lack of free market traditions in Poland before 1989 and the working class political base of Solidarity (Slay 1994). However, the proponents of the social democratic view did not manage to impose their ideas. The Plan was introduced in the 1990's and proposed a clear set of liberal economic measures.

Consensus was needed to guarantee social peace for such a drastic plan but, because of Poland's monolithic society (Iankova 2002) and underdeveloped organizational resources no tripartite institution was initially adopted. Instead, the neoliberal pathway was initially almost universally favored by the civil society and government alike. The Balcerowicz Plan brought radical changes. Prices of consumer goods increased over night and inflation skyrocketed. Despite initial agreement with the reforms, under the umbrella of Solidarity, union movement started to shift its position. During the 1991 and 1992 real incomes decreased and the gap between the policies pursued by the government and member's expectations widened. In effect, unions reacted by adopting a more radical attitude both at the national and sectoral level. At the grassroots the union movement became chaotic factionalized as workers' councils were interested in reacting only to the privatization of "their" enterprise. An alliance between workers' councils, enterprise directors and union officials opposed government's plans for privatization (Slay 1994). This conservative alliance also advocated against national collective bargaining, labor-management arrangements and continued state ownership in most of the large enterprises. Instead piecemeal disputes between workers and management produced strikes and conflicts beyond the control of national unions.

The initial social peace which accompanied the early stages of the Balcerowicz plan switched to amplified labor conflicts. Between 1990 and 1991, 250 official strikes were reported with 115 687 participants and 159 016 lost working days. By 1991, striking activity almost doubled as compared with the previous year. The effect of these changes was that the privatization program and the political program of the government received constant opposition and criticism. Militancy levels rose in Romania as well but with correspondingly lower frequency levels. This happened partly because the government sought to respond to worker's requests and partly because the effects of the economic transition were not yet

entirely visible.

Table 3: Labour Disputes: Working Days Lost per 1,000 Employees

(all industries and services)

	1991-1996	1997-2002	2000
Poland	66	6	7
Romania	40	68	94

*Source (Funk and Lesch 2004)

Still, an important feature of the Romanian strike pattern is that they often turned violent. In June 1990, responding to summons from the President Iliescu, several thousand miners came in Bucharest to “reestablish order”, “defend the Revolution” and “free the University Square from fascist elements”. The event led to clashes between miners and other protesters, the destruction of the headquarters of the opposition parties and other important institutions. In September 1991 the miners returned to Bucharest this time to protest against government’s policy to eliminate price controls which affected their wages. The policy was a part of a wider program of reforms initiated by the Prime Minister Petre Roman who proposed the immediate privatization of state enterprises and the promotion of a market economy following the Polish model. The program included a six months moratorium on pay and working conditions demands from the trade unions which in return would receive compensation for the negative effects of the reforms (Carey 2004). The major confederations gave their consensus though they asked the government to increase their influence on labor legislation. The consensus did not last long and strikes for better working and living conditions emerged throughout the country: tractor factory workers in Brasov went on strike while in Constanta harbor workers and sailors walked off the job. Despite these protests the government went on with price liberalization and cut subsidies on most prices aside of food, fuel heating and rent. By the end of the moratorium period the government failed to deliver the promised reforms which created further dissatisfaction amongst workers. The national

confederations called for protests and despite the adoption of new Labor legislation in 1991 the demonstrations did not stop.

This time the miners attacked the Parliament building and the national television building but without taking full control over them. The chaos produced in Bucharest by the riot as well as the loss of support from the President Iliescu made the Roman cabinet to resign. These events show that the economic reforms had little support both from the workers and factions of the government alike. While workers proved their power by toppling the government they did it in spite of calls from the national confederations to stop the protests. On the other hand the government was split about the speed and scope of political reforms which made it more likely to be affected by social instability.

As Table 3 shows the level of strikes followed an upward trend throughout the whole period. Beside strikes for political reasons workers used walkouts and protests to strike against the government or management's policy. Many of them were termed as being illegal and led to clashes between police and protesters. These high levels of protest cannot be fully explained by the economic hardships which affected the working class. Keyl (2003) shows that protest levels are higher when the industrial relations are poorly institutionalized. As will be discussed in the following section, tripartite institutions were adopted relatively late (1993 in Romania and 1994 in Poland) and once established they provided another arena for conflict rather than cooperation.

On the other hand, an important factor which contributed to the high level of strikes in Romania throughout the transition period was the political situation (Keil and Keil 2002). The Social Democratic Party (the reincarnation of NSF) remained in power until 1996. Its electoral pool was mostly based on workers in large and medium industrial companies and peasantry from the north-east part of the country. But while this ensured the electoral victory of the party it also created high pressures for redistribution and social protection. Given that

the transitional recession was rather high in Romania, the governments did not have many resources to redistribute. Caught between preserving its access to power and addressing the macroeconomic problems the left chose a gradual reform path.

2.2. Between bipartism and tripartism

Immediately after the regime change international organizations lobbied for the creation of worker representation bodies in CEE countries. In Romania the first tripartite body was established in 1993 as a result of a Phare project seeking to implement dialogue between social partners and the government (Miheș and Casale 1999). However, prior to the introduction of tripartite institutions, bargaining took place either through informal channels or through works councils at the plant level. Works councils were granted sufficient powers over the management's decisions and they were involved in matters such as income guarantees, income security and the privatization process. In spite of these powers, works councils created conflict at the plant level because non-unionized workers were allowed to take part in them. In this respect, Romanian works councils were a substitute for unionism (Kollonay-Lehoczky 1997).

The poor institutionalization of industrial relations at this stage made conflicts to be settled directly through negotiations between workers and ministers. The government usually would agree to pay wage increases and keep the employment levels up in exchange for ceasing industrial protests. However, due to budgetary constraints these promises were rarely fully kept so workers would strike again to defend their positions. This stop and go activity had important implications in the short run on industrial policy. Practically because the government was kept under constant pressure from the workers through protests and lockouts it lost the ability to listen to the "voice" of the workers. To use Hirschman's (1970) term,

worker's "voice" was transformed into "noise".

The Tripartite Secretariat was established in 1993 to mediate the conflicts between the government, the unions and employer's associations. However, only four years later the unions withdrew their support from the institution which led to its collapse. Two reasons were underlined by the unions for their withdrawal: first they emphasized the financial reason namely that the employer's associations have not kept their part of the bargain and did not paid the their contribution for sustaining the Secretariat and second, they were discontented with having only one representative for all union confederations which made unions interests underrepresented in the bargaining process. Following the collapse of the institution, another tripartite body was created by the government in July 1997

But despite workers' permanent protests and the formal adoption of the Tripartite Secretariat the Romanian government blocked any form of tripartite cooperation until 1996, arguing that labor has other channels to communicate its grievances such as bargaining at the company level. This strategy produced a similar environment to the one in Poland, where the lack of formal channels led to tensions between competing confederations (Korkut 2006). In addition the government sought to forge alliances with powerful local unions and encouraged them to split from the independent confederations (Sznajder Lee 2010). This happened with the miner's unions from Jiu Valley which ceased their membership in the Cartel Alfa confederation and formed their own organization. Similarly, the workers from the steel producer, Sidex Galati were encouraged to defect and form a new organization which received the status of confederation despite lacking territorial representation as required by law. In the words of the Vice President of Cartel Alfa confederation, the leaders of the NSF:

were really unhappy that these structures would become very powerful and immediately decided to weaken these structures and used some trade union leaders in order to do that. The miners and

Galați union are just two examples, but in early 1990s, these two federation structures were the most important federation structures in Romania (Sznajder Lee 2010).

Following the regime change in 1996, the center-right government committed itself to provide more support for the tripartite dialogue and to grant the legal right to be consulted on economic and social matters to trade unions and employer's associations. This happened because the coalition government needed support for the economic reforms which it advocated during transition. Also, the Prime Minister Victor Ciorbea was a former union member who supported more union involvement in the decisions regarding the economic reforms. Initially the unions agreed on a short-term moratorium to allow the government to pursue the economic reforms but this honeymoon did not last too long. The government failed to deliver the promised reforms which made unions to resume industrial action. Despite the fact that the Economic and Social Council was created in 1997 to provide a framework for corporatist bargaining labor relations remained dominated by disagreements.

Thus, until 1996 the social dialogue was hampered by a government with illiberal tendencies which was unwilling to implement substantive reforms. In effect the dominant level of negotiation remained the company level. Still, between 1996 and 2000 in spite of efforts to create institutions for bargaining the major interest groups in the economy remained on opposite sides. As I will discuss in the following section, the unwillingness or the lack of capacity of the government to cooperate at the national level and its commitment to maintaining high levels of uncertainty created exactly the opposite effect to weakening labor position: unions used this opportunity to create coalitions with managers and control the big industrial sites.

Poland adopted a new Labor Code in April 1989 followed by comprehensive labor and employment legislation in 1991. The unemployment benefits were supported through a

Labor fund which was sustained through a payroll tax of 2% (later 3%) and subsidies from the state budget. The initial scheme provided benefits equal to 70% of the salary in the first three months, 50% of the salary in the following six months and 40% afterwards for an indefinite period. However, as unemployment rose and the costs of the scheme grew proportionally, the government had to scale down the benefits. In the autumn of 1991 the government adopted the Act on Employment and Unemployment which introduced limits on the period for which unemployed workers could receive compensation and also on the eligibility criteria for unemployment. The scheme was further modified in 1992 when it introduced a flat rate unemployment benefit of 36% of the previous quarter's average wage thus separating it from individual earnings.

Overall the 1991 legislation did not favor the development of tripartism at the national level. As a part of the neo-liberal program the prevailing belief was that the state should not be involved in negotiations at the sectoral and company level given that a fully developed market economy would entail negotiations between employers and employees. But despite this ideal representation of a market mechanism the Polish government was pressured to enter in negotiations given that at that time it was the main employer in the Polish industry. The Enterprise Pact, regulating the distribution of social costs of transformation was proposed by the government to guarantee a minimum security in return for less union protests and support for the continuation of reforms. As in the Romanian case the negotiations for the Pact were facilitated by the European Phare project and the participation of International Labor Organization representatives. In February 1993 the Pact was signed both by the Solidarity and OPZZ unions. In essence the Pact was a compromise between those who favored the shock therapy (the government and Solidarity) and those favoring a more gradual path. The Pact introduced a tripartite board with a supervisory role over the Guaranteed Worker's Benefit Fund and over the macroeconomic and social policies. This was

predecessor of the National Commission on Social Economic Issues.

After the 1997 elections social dialogue in Poland deteriorated. The return in government of post-Solidarity parties, grouped under the umbrella of Solidarity Electoral Action (AWS), marked the beginning of a period when agreements on key social issues was impossible to be achieved. As happened in the early 90's when in power, Solidarity pursued market oriented reforms. While the previous SLD led government (supported by the OPZZ) adopted pro-labor measures, the AWS took a series of measures which weakened union power particularly in health and education and passed legislation which totally eliminated the unions in the mining sector (Robertson 2004). In 1998 OPZZ, started discussions with the Solidarity leadership on this issue but impasses on the working of the Commission continued to persist. The OPZZ returned to a more oppositional stance and cut dialogue in the Commission. On the other hand consensus in the Commission was difficult to achieve because of the minority ruling partner- the Freedom Union (FU). Solidarity Electoral Action needed the agreement of the FU for securing a majority in the Parliament but had difficulties in accommodating the request of the FU in the Commission as the FU defended the interests of people with high incomes.

All these developments favored the dialogue at the enterprise and sectoral levels. As a response to union pressures, in 1995 the Tripartite Team for Social Conditions of Steel Industry Restructuring was established. The Team negotiated a sectoral level agreement regulating wages, working hours and financial benefits. At the same time the signing of the Sectoral level Collective Agreement in 1996 resulted in the smooth cooperation in the steel sector in Poland.

By and large, the pattern of interaction inside the tripartite bodies between the state, employers and labor remained similar with the one in Romania. The unions have been politically influential and managed to mobilize support for strikes and demonstrations. The

national level collective bargaining started relatively late and did not yield the expected results in terms creating compromise between unions and government. However, an important difference was that by the time the National Commission was created the unions were pacified and the government consolidated its position *vis a vis* labor.

At the same time, the internal fragmentation of Polish labor and its bi-polar ideological division enabled successive governments to obtain the political support of trade unions without relying on tripartite negotiations. Whenever the government felt that labor would disagree on social issues the debate on the national tripartite institutions was bypassed and moved in the Parliament where the ruling party had majority (Avdagic 2005). Thus the interests of labor were subordinated to political camps which blurred the limits between parties and trade unions and exacerbated the conflicts among trade unions.

In Romania during the first phase of transition the government tried to subordinate labor by either rejecting bargaining at the national level or by promoting legislation to fragment the union movement. This effort was undertaken because of struggles for property rights over what used to be the property “of the entire people” and endeavors to define who are legitimate actors that can take part in the political game. Unlike their Polish counterparts the Romanian unions pressed for legitimacy and used the political climate to promote their interests. Politically the governments were unable to sustain a firm position against unions in the face of constant demonstrations and strikes. Despite the fact that the tripartite negotiations were existent only through a formal level, the unions used their support from the rank and file to impose their demands. On the economic side this opened a vicious cycle between inflation and wage increases which made economic reforms harder to implement (Pop 2006).

From 1996 onwards the center right government unsuccessfully attempted to restructure the economy and promote social dialogue. Politically the coalition government was weaker than the previous leftist governments as the parties inside it had split views over

how the reforms should proceed. Unions used the opportunity to create direct channels with parties inside the coalition which supported their position (especially with the democrats). In exchange they offered support for the party's demands of greater political and policy influence.

Therefore, unlike in Poland tripartite institutions in Romania were not bypassed because the state was in the position to circumvent labor demands but because of its incapacity to promote them as legitimate channels of bargaining. Unions found better ways to promote their interests and influence outcomes through informal channels or direct negotiations with the government. It is not by chance that despite the fact that Romania underwent a second transitional recession between 1997 and 2000 its costs were not paid by the industrial sector but by other sectors such as education and healthcare. Despite decline in industrial output during this period the wages of workers remained stable and employment in state owned companies stayed safer than in the private sector.

2.3. Privatization and the available choices for labor

Within this effervescent and poorly regulated environment, the state had to privatize the old companies, especially the large companies (the "mammoths") which were draining the budgets by requiring massive subsidies. This triggered a debate on how fast to privatization should proceed and subsequently what costs will the speed of privatization incur on the national interest groups.

Western advisors and orthodox economists (Przeworski 1991) advocated a liberal economic policy as the major model for reforming the socialist economies. The foundation for this approach was the Washington Consensus which had been the ground for economic reforms in Latin America. While no policy maker argued for total breakup, people like Balcerowicz (1995) or Sachs (1996) believed that speeding economic reforms would allow

countries to resume growth faster and adapt better to the international market.

In the long term, the shock therapy had a significant impact on the trade unions in Poland. In reality, the government's support for fast liberalization and privatization trimmed down any policy making role which unions might have assumed in the early stages of transition (Kubicek 2004). On the political level the privatization process had to bypass both the trade unions and the politicians. They were replaced by a handful of internationally educated technocrats. On the other hand unions in less successful sectors of the economy suffered important losses. Opening of the economy to the world market meant primarily the "restructuring" of socialist firms which in reality meant radical cuts in the workforce. Webster (Webster 1992) notes about the shock therapy in Poland that "in the short run, full trade liberalization - designed to integrate Poland into world markets in one giant step and specifically to force efficiency gains in the state sector - may have been more effective in undercutting the fledgling private manufacturing sector than in improving the state sector to restructure". Paradoxically the shock therapy might have harmed the part of the economy which it aimed to develop by failing to produce changes with the same speed in the state sector.

Nevertheless, the plans for privatization did not work so well in the early stages of transition. Figure 1 shows the status of large scale privatization in Romania and Poland between 1989 and 2010. Despite substantial efforts to privatize very fast, Poland scored actually very low in terms of large scale privatization. Although, at the national level unions were removed from the policy making process, at the plant level workers still retained sufficient power through works councils and alliances with managers. Further, Gorniak and Jerschina (1995) argue that the electoral competition between parties and membership competition between union confederations led parties to support managers' and unions' demands in the affected industries sometimes even against their political program. Taking

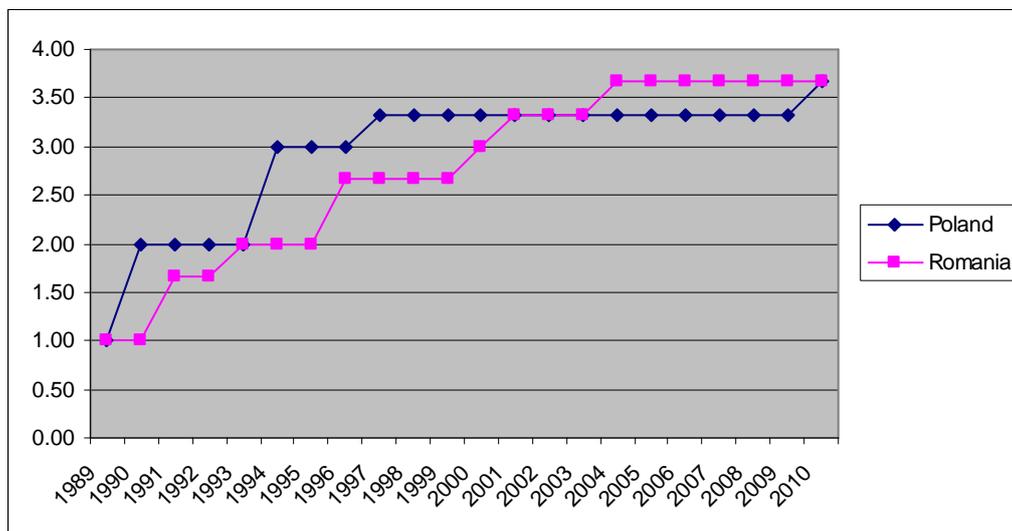
into account the two points emphasized in the previous sections that: a) unions were very active in terms of protests and b) tripartite institutions were basically missing at this point we can conclude that the unions were successful in defending their position. During this early period the unions were powerful *vis a vis* the state and management and maintained the capacity to mobilize support for strikes and lockouts to influence policy makers in the direction they wanted. However, at the national level the political disputes made the two major confederations to depart from worker's interests. As shown in the previous section the bi-polar political orientation of the union movements contributed to conflicting relations and setbacks in the establishment of tripartite arrangements.

In spite of strong conservative interests at the plant level privatization speeded up in the second phase of transition. Data in Figure 1 shows that the privatization process was improved in two phases: in 1993 and 1996. So what factors contributed to the speeding of the reforms and the weakening of insider's position? As I discussed in the previous sections in 1993 the Enterprise Pact was signed between the unions, employer's associations and the government. The two most important chapters in the Pact were on privatization and collective bargaining. The section on privatization was essentially an agreement between confederations and the government to increase the speed of privatization of large state owned companies. According to the provisions of the pact the employees and managers were given the right to choose the method of privatization with the condition that the decision will be made within a six months deadline. If the deadline would not be respected the state would take control over the company. The initiative gave to insiders the freedom to choose the type of privatization but also transferred the national level political divisions between unions to the firm level. The conflicting positions at the plant and national levels in which the unions were engaged weakened their position and ability to influence the reform process. After months of painful negotiations without reaching any agreement the confederations refused to sit at the same

table. In the end the government and employers signed an enterprise pact with each of the union confederations (Orenstein 2001). Privatization speeded up but many state companies still remained in an ambiguous position.

A second effort to further privatize was made by the government in 1996 with the adoption of the Privatization Act on Commercialization and Privatization of State-owned Enterprises. To govern the process a new Ministry of Treasury was set up which represented an essential public administration reform (Kozarzewski and Woodward 2001). The most important change which produced major consequences for labor was that the state did not need anymore insider's consent for going on with the privatization. Thus labor lost its privileged position at the company level too, which deepened the process of its political alienation.

Figure 4: Large Scale Privatization in Romania and Poland (1989-2010)



*Source: EBRD Transition Indicators

The shock therapy approach came under critique by the proponents of the gradualism who emphasized the need to minimize the disruption produced by the systemic change. Gradualists pointed out the need to establish the economic institutional and political structures before any attempts of liberalization would be undertaken. The adepts of the neoclassical gradualist transition process argued that the introduction of a free market system

will create problems which are impossible to be solved without considering the social and political aspects in the politics. The “transformational recession” (Kornai 1993) would be defeated by initiating a “preventive therapy”. According to this view, the desirable path would maintain a semi-centralized system in combination with a centralized market (Maragos 2003). The ultimate goal of a fully functional capitalist market would be achieved through a gradual elimination of centralization. This was possible only by “rebuilding the boat in the sea” or embarking in a lengthy transformation process.

As Figure 1 shows, Romania lagged behind Poland in terms of privatization of large companies throughout the whole transition period. In 1999, the EBRD report concluded that Romania together with Albania privatized the least within the post-communist group. Despite undergoing a regime change in 1996 with a liberal government committed to privatization and liberalization coming to power privatization still lagged behind as compared with other countries in the region. There are two reasons which determined this situation which will be discussed in the following paragraphs: strong conservative coalitions at the workplace which in reality translated into high levels of protest against any change and reduced state capacity to regulate labor relations and break up these coalitions.

For trade unions this meant the preservation of some of the structures of the old regime in the industrial sector while the state sector would remain highly unchanged. In the short run, the position of the trade unions was not affected though the democratization process brought competing unions in the same sector. For Romania where the state was a weak actor the gradual economic reforms left room for battles for power fought by and within the “industrial technocracy” (Pasti and Cusin 1997). This group, composed mainly of middle level managers of the socialist enterprises was the most important winner of the regime change. The revolution brought the liberation of managers from political influences and party’s communist bureaucracy. Shortly after, the National Salvation Front’s enterprise

Councils were also dismantled which led to a total control of the industrial enterprises by the management.

Trade unions' response was to mobilize workers against managers. By mobilizing key workers in companies unions managed during the first year of transition to oust a significant number of managers from their positions. It was the golden age of Romanian unionism: union leaders were trusted by workers while having an important saying in the managerial decisions. They secured worker's support through favors either from the central administration or from managers. On the political level they legitimated their claims through state bureaucracy which strengthened the ties between government and parties.

However, after one year of battles at the company level, between 1992 and 1993, unions focused their attention towards central administration. This sudden change in union's rhetoric and actions was determined by the *ad hoc* alliance with opposition parties which sought to use union's power as a political weapon. On the other hand union's organization at the national level was catching contours with national leaders seeking to prove their utility for the labor movement. Obviously, this shift broadened the claims made by unions which now contained elements of economic and social policy.

The refocusing of union's protests came with a very high price for the workers. After a year of bad management, labor cuts and decrease in productivity the enterprises had to be reorganized. However, the newly formed class of technocrats had a strong stance against reforms at the enterprise level. Instead they proposed (and obtained in the autumn of 1993) a "price liberalization". In simple terms this reform left untouched the structure of the companies while it increased prices – the only strategy available for keeping with the same structure and leaving the power relations in the industrial sector unchanged. In real terms the reform shifted the costs of management failures to the population via price increases.

Wage pressure from unions at the company level preserved worker's financial status

as compared with other sectors in the economy. On average, throughout transition the wages in the industrial sector remained between 1.4 and 1.7 times the national average (Newell 2001). In addition where layoffs were imminent the workers received big lump sums and the possibility to participate in retraining programs.

On the other hand, the managers used their power in order to develop a mechanism of unlimited subsidizing through bank credits. The mechanism, adopted in 1993, replaced the old one which was based on subsidies through the state budget. Again this was a big victory as it removed any political control over companies and allowed managers to increase their leverage towards the state. This was the most visible in the key industries such as coal, steel and car manufacturing. Over time these sectors accumulated huge debts towards the state. However, every time when the state sought to force payment of the debts the managers simply refused to pay, leaving the state with no other choices than to shift the burden to the population. Again the workers were the group most affected by management's decisions. Table 4 shows that the subsidies to state firms in Romania in 1992 were more than two times bigger than those in Poland. The estimate includes only direct subsidies from state budgets to companies. However, if we include also indirect subsidies such as preferential prices to energy and utilities, debt rescheduling, and special interest rates the numbers could be as much as two times bigger (Ahrend and Martins 2003).

Table 4: Budgetary subsidies to Firms, 1992 and 1994 (shares of GDP)

	1992	1994
Romania	3.0	3.2
Poland	1.4	2.2

*Source Worldbank

Ironically the unions ended up in an alliance with the managers against the state. This shifted the dynamics of negotiations between the state and companies. At times when companies were in need of more subsidies from the state they would channel it through union

proposals to government. In return, unions would receive manager's support for wage increases and extended benefits. Not surprisingly the unions always got what they wanted in terms of economic benefits.

To conclude, labor's strategic position at the onset of transition was challenged as a result of the economic reforms undertaken by governments but the plant level coalitions preserved its strength at least initially. Organizationally, the unions lost membership but managed to keep sufficient bargaining power to fight for their position. The shock therapy pathway may be conducive to corporatist bargaining practices at the sectoral or company level provided that labor receives governmental inducements which would compensate for the short term losses. On the other hand, choosing a gradual reform path might lead to very strong conservative alliances which in the context of a weak regulatory power of the state may refuse to change their position towards reforms.

Further, unions in the two countries made use of the resources they had and their positions relative to other actors in very different ways. In Poland the unions supported privatization from 1993 onwards which changed the employment relations at the enterprise level. They accepted the need for privatization and the social effects which it will produce among workers. In some cases they even went further and requested the government to speed up privatization. This contributed to the growing discontent among rank and file and to the weakening of the union representation at the workplace.

Employee ownership which used to be at the center of the union claims at the onset of transition disappeared from the agenda and was replaced by demands for privatization and liberalization (Ost 2005). Therefore, in addition to the inherited weakness and identity problems the Polish labor chose a pathway which deepened the gap between unions and shop floor members. The state owned companies, where unions are expected to be the most powerful were gradually taken under the administration of the government. Solidarity

economic reformers gave up on the idea of workplace democracy and minimized insider's influence over the company decisions. In essence the decentralization of employment relations and privatization eliminated the long-established ground of union presence.

In sharp contrast with the Polish case, the Romanian unions chose to preserve and fight for workplace influence. Probably the most important strategic choice they made was to preserve their traditional representation grounds. This provided an important asset in the bargaining with the government and managers. Further, it compensated for the lack of collective bargaining institutions at the sectoral and national levels. This explains the peculiar cases of union-government direct bargaining at the workplace over wages and other benefits. It also explains why the institutionalization of tripartite institutions is not correlated with lower strike levels. Striking and work stoppages was the most efficient way to catch the attention of the government and start immediate talks on specific work related issues. From this point of view, Romanian unions managed to use their legacies to their advantage.

The second important strategic choice made by Romanian unions was the preservation of the workplace alliances with the management. This gave them leverage in negotiations with the government and a say in the privatization related issues. At the national level they influenced the political stability of each post communist government either through direct action or through informal negotiation with party members. This shows that unions managed to make the problems of the workers known to policy makers and use the political opportunities to strike deals with governments.

However, the alliance between management and labor was a double edged sword. While it preserved labor power and political influence it slowed down the privatization process. Managers acquired privileged positions inside the company and preempted any radical move towards privatization whenever their interests were affected. Evidence suggests that even when unions supported privatization plans their influence was relatively weak if the

managers occupied a strong position inside the enterprise (Sznajder Lee 2010). This in turn suggests that unions were not automatically opposed to privatization. Recall also the moratorium granted by the Romanian unions to the government in 1996. They sought to speed up the privatization given that workers most affected by the economic reforms will be compensated for their losses.

Finally, while legacies are indeed important to the extent that they provide the initial conditions of the game, the actors are those who upon choosing a particular strategy determine particular policy trajectories. Moreover it seems that legacies may serve as a ground for revitalization or at least for preserving union power. They are not inherently obstacles to union organization but may serve as a resource for unions which seek to defend their rights. Romanian unions survived over time as important workplace actors in spite of organizational weakness and hostility from the government. The pragmatic partnerships which they built over time preserved their influence at the workplace and in the national political arena.

2.4. State capacity and workplace coalitions

The slow privatization of the large scale companies was compensated in Poland through a very fast growing private sector and fast privatization of the small and medium scale firms. As Table 5 shows in Poland the private sector contributed to GDP almost twice as much as in Romania. Further, Polish GDP growth accelerated to an average of 6% per year between 1994 and 1997 making Poland the fastest growing country in the region. Politically the union confederations accepted that faster privatization would incur losses for the rank and file. However, given the perennial conflict between Solidarity and OPZZ inside the Tripartite Commission no national agreement over privatization process was reached.

Table 5: Private sector share of the GDP in Poland and Romania

	1989	1992	1993	1994	1996	1998	2000
Poland	28*	47*	52	58	60	65	70
Romania	12.**	25**	34.8**	38.9	55	60	60

Source: EBRD Transition Reports, Various Issues; *National Statistical Institute; **(Negrescu 2000)

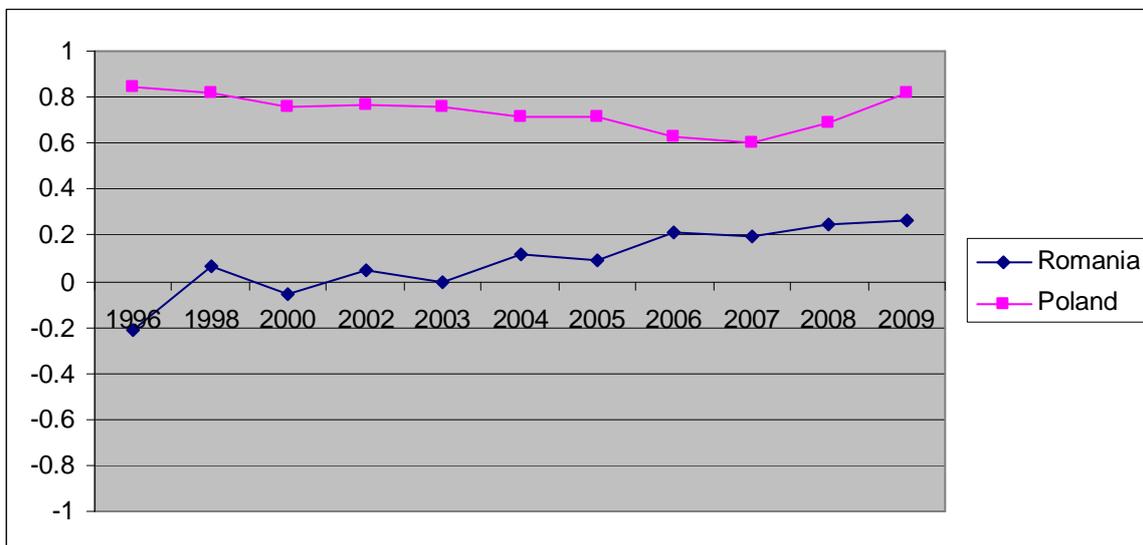
As a result a different path was chosen which resulted in by-passing the Tripartite Commission. The SLD left wing government which came to power in 1993 proposed a *Strategy for Poland* which was the most significant medium and short term policy since the Balcerowitz Plan. In macroeconomic terms the Strategy was a plan to support economic growth while containing inflation. In order to reach agreement with the public sector and large scale companies unions the strategy proposed “enterprise pacts” as mechanisms of bargaining. As for the workplace disputes the government emphasized the idea that these were just “minor issues”. The Finance Minister declared that “neither the minister of finance nor any other minister will negotiate wage matters in any enterprise” (Blazyca and Rapacki 1996).

This indicates that the state was able to pursue economic reforms without necessarily obtaining trade unions’ consensus. Industry wide agreements were replaced by workplace collective bargaining. Formally, the state became the dominant actor in industrial relations. Besides establishing the legal norms for regulating the industrial relations system, the state used its infrastructural power to monitor and support the privatization process.

Figure 2 displays an indicator of state capacity throughout the mid 90’s and 2000’s based on the Worldwide Governance Indicators (WGI) project developed by the World Bank (<http://info.worldbank.org/governance/wgi/index.asp>). State’s absolute capacity “is the extent to which the state has the authority and means to extract and deploy resources: a technocratic meritocratic, and internally cohesive bureaucracy; and effective and monitoring and

regulatory capabilities” (Shafer 1994). State capacity must also be seen in relation with the “interests, resources and capabilities of other actors”. The indicators in the WGI provide good proxies for the dimensions of state capacity as conceptualized by Schafer. I used the rule of law indicator to measure the authority of the state extract and deploy resources; the government effectiveness indicator for measuring to what extent the state has a meritocratic and internally cohesive bureaucracy; the regulatory quality indicator to measure the monitoring and regulatory capabilities of the state and the control of corruption indicator to measure the state capacity in relation with other actors.

Figure 5: State Capacity in Romania and Poland (1996-2009)



*Source: Worldwide Governance Indicators

The above data provide support for the claim that the Polish state was more capable than the Romanian state in enforcing its policies. The mass privatization program which was launched in December 1994 gave workers the right to decide on the type of privatization but not on whether the company would be privatized or not. Thus the SLD government made it more difficult for company or sectoral interests to capture the policy outcomes. While the “enterprise pacts” pacified labor for the short term they removed slowly its influence over management’s decisions. Further, the hidden agenda of the strategy to break the power of unions at the enterprise and sectoral level was achieved through the removal of the works

councils and replacing them with supervisory boards where workers had little or no influence.

Neoliberals preferred a small but capable state. The reforms introduced in the mid 90's have gradually reduced employee influence while cutting back the benefits in the state sector. Beginning with 1996 the SOE's began to be commercialized by the state with no need for insider's agreement. The method used was "indirect" privatization which produced concentrated ownership structures, dominated by foreign investors with low insider involvement. Thus, relatively early the Polish state gradually broke insiders' coalitions and stimulated the privatization of SOE's where unions were the most powerful.

Privatization was accompanied by fiscal reform. Austerity measures were introduced to stabilize the public sector deficit and reduce public debt. Between 1993 and 1997 the public sector deficit was reduced to 3 per cent and the public debt was reduced from 86.9 per cent of the GDP in 1993 to 50 per cent in 1997 (Kolodko, Nuti, and Research 1997). However the successful economic transformation did not materialize into lower costs for the worst hit categories of the population. After a small period of decline in the mid 90's unemployment continued to grow at a rate of 4 per cent per year.

Social transfers were used to address the growing frustration and dissatisfaction with economic reforms. As Vanhuyse (2006) points out, a marked increase in generosity of welfare benefits helped in cushioning the effects of the economic reforms during the early stages of transition. The problem of rising unemployment was tackled through the introduction of early retirement policies, followed by the extension of social assistance programs which also played an important role in the pacification of labor force. When the generosity of the welfare system became unsustainable, retrenchment through privatization (Cerami 2008) reforms were introduced to reduce the expansion of the welfare claims and cut expenditures. Interestingly the welfare policies followed a sinus curve. The retrenchment of the welfare state in the mid 90's led to a growing number of unprotected citizens which again

requested a re-calibration of the welfare system (Inglot 2008). The unemployment benefits for example remained financed through employer's contributions and are granted on a flat rate basis.

Therefore the governments succeeded in using the welfare policies as a means to achieve their goals. While in the beginning of the 90's they "bought" social stability through generous welfare programs, in the mid 90's when reforms speeded up labor's input was only marginal. Insiders' who up until then blocked the reforms, especially in the SOE's lost their position since they did not have the same organizational resources or sufficient political support from the leftist parties.

Comparatively the Romanian state was less capable in achieving or defining its goals. Thus reforms were more likely to be captured by insider's interests. The delayed privatization was a means to compensate for the low welfare benefits and insecurities of the market. The welfare dimension of the slow privatization process is revealed through several mechanisms. First, as Earle (1997) points out, workers in state owned enterprises had a low probability of exiting their sector. Overall, the managers had little incentives to fire workers because they represented a strong asset in the bargaining with the state and because in the early 90's the state bound itself to subsidize any company which would have problems. Therefore employment security was higher than in the private sector.

During the first period of the transition the governments attached a high value to unemployment. This happened because of fears of social unrest and also because of the electoral commitments in which parties engaged in during campaigns. Despite massive decline in industrial output the unemployment rate remained constant in the first seven year of transition and spiked with three percent during the second recessional crisis in 1997. Several reasons contributed to this situation. The state lacked the capacity to impose fiscal discipline on the state owned companies. This created a moral hazard problem where SOE's

upon expecting more subsidies from the government would create even more arrears. As I discussed in previous section this gave insider's the freedom to exploit state resources without many constraints. Unprofitable SOE's afforded to pay higher wages than the national average despite huge daily losses and accumulated debts. Moreover, even when the accumulated debts became too high and the companies were in the impossibility to pay wages workers did not chose the exit option. Similar with the Russian case (Gimpelson 2001), the Romanian workers had to choose between being unemployed and being underpaid. Giving that the Romanian welfare state did not provide sufficient benefits for workers to assure a living for themselves outside the market, the exit option was unattractive.

Another factor which contributed to the stability of the employment levels was the populism of the political parties. In the electoral years, the government encouraged the SOE's to take more arrears in order to finance wage growth and production artificially. When the debts increased dramatically the State Ownership Fund (SOF), the institution having the task to privatize the state companies, would intervene and bailout the companies in need by distributing the revenues from privatization (Maria Radulescu 2010).

A common practice for companies during transition was to offer workers non wage benefits. Interviews conducted in several Romanian companies revealed that both workers and managers were interested in social benefits. In addition to wages workers usually received food vouchers, medical assistance and even holidays in company's leisure complexes. Between 1991 and 2004, the collective agreements at the company level included subsidies for around 50 per cent for holidays, premiums for holidays and a 13th wage each year.

Beside the privatizable companies the state created a "strategic" sector of the economy comprised from armament, energy, mining and natural gas, posts and railway transportation - as well as in some areas belonging to other branches, as decided by the

government. These sectors took the name of “*regies autonommes*” and received a special status. They were entitled to unlimited budget subsidies and were non-privatizable because as the government argued they did not issue shares and they administered goods which were by constitution inalienable. An additional provision stated that these entities could not file bankruptcy. By and large the highly privileged status of these companies and the legal ambiguity which surrounded their status allowed for the preservation of rights of their managers and unions alike for the whole transition period. Therefore, in these sectors there were more incentives to preserve the status quo than to reform.

By 1998, it became clear that the government deprived itself of any substantial tool of controlling the enterprises. This resulted in a system of spoils with multiple beneficiaries. The bureaucracy won substantial influence as it had the know how, the access to state resources and the position to allocate capital and distort competition in favor of their protégées (Dochia 2000). The parties won because they obtained places in the councils of administration of the state owned companies. Despite the clear provision of the Romanian law that privatization should not be influenced by political factors, being sheltered by their Parliamentary immunity the MP’s kept their positions in the management boards. Finally, the unions won because they kept many privileges within the state owned companies.

To sum up, two different stories have been unfolded in Romania and Poland with opposite consequences for labor. Whereas the Polish governments broke the company level coalitions relatively early in the transition in the Romanian case they have been perpetuated until early 2000’s. Polish labor failed to defend the workplace coalitions and was subdued by the government. Trade unions lost any real influence and became unappealing to the rank and file. Comparatively, the Romanian labor managed to defend some of its rights and to deliver to the rank and file. Workers avoided unemployment because the welfare system did not provide enough as to keep them out of the market which also improved the position of the

trade unions. This is reflected in higher membership and unionization density rates as compared with other countries in the region.

CHAPTER 3

3.1. Left wing comes to power

In the beginning of 2000's in both countries left wing governments came into power. In Romania the Social Democratic Party won elections in October 2000 and formed a coalition with the Democratic Union Hungarians in Romania under the leadership of Adrian Nastase. In Poland the left won a landslide victory against the Solidarity Electoral Action (AWS) in the parliamentary elections held on 23 September 2001. Leszek Miller took office as Prime Minister backed by a coalition of three parties: the Left Democratic Alliance (SLD), the Union of Labor (UP) and the Polish Popular Front (PSL).

The Romanian left capitalized on worker disenchantment with the reforms introduced by the previous governments. Backed by the CNSLR- Brotherhood in elections the left won a landslide victory. Having to compensate the electoral support of the unions, the government did not comply with the International Monetary Fund's (IMF) recommendations and planned a budget deficit of 4.5 – 5 per cent in order to provide a “social safety net” for the low income voters. Consequently, it argued that privatization and closing of the inefficient plants would be politically feasible only if the government would be able to financially support workers. Privatization process continued to be stalled and more attention was paid to improving social policies. Marian Sarbu, one of the co-founders of the National Confederation of Free Trade Union Associations, was appointed as Minister of Labor. A labor friendly political coalition was thus in power.

Two main goals were set by the Nastase government: promoting the integration of the country into the European structure and achieving social stability. Within a month from taking the office the government introduced tax breaks for the medium and small companies. It also negotiated a social pact with the trade unions and employer's associations by

promising to create more jobs from raising investments in infrastructure and constructions. The aim was to establish stable tripartite negotiations and to avoid industrial action. The pact was a medium term agreement which included promises from the government to bring the Romanian labor legislation to European standards. It aimed at improving the industrial competitiveness of the Romanian industry by attracting foreign direct investment and continuing the structural adjustment.

The pact was renewed in 2002 when it extended the number of issues covered to employment, tax system and safety at the workplace. It also included the necessity of linking the wages to output and corporate profitability and the provision of benefits for the workers most affected by the privatization. (Bideleux and Jeffries 2007).

Following the 2002 agreement, a revision of the Labor Code followed in 2003 after three years of negotiation. The Code reflected both the left wing orientation of the government and the relative powerful position of trade unions. It offered a series of privileges to trade unions but it left many articles concerning the rights of employers ambiguous (Coman, 2005:24). This triggered protests from employer's associations which argued that the Code was harming their interests and that it did not comply with the Constitution. They argued that during negotiations their point was not taken into account. Moreover, some of the representatives of the employer's associations declared that "the new Code transformed the private enterprises into social welfare institutions" (National Journal, 2003).

The Code was adopted in 2003 and it introduced several important changes. Any company that exceeds more than twenty one employees was obliged to sign a collective agreement contract. Also, the law limited the usage of term contracts only to exceptional situations and protected the workers against collective dismissals by requiring the employers to consult the trade unions as well as to find solutions to retrain workers.

Similar to the Romanian case, a left wing coalition was elected in Poland in the

autumn of 2001. A major change in the political landscape was that trade unions no longer had representatives in Parliament. The OPZZ union ceased to be a partner of the post-communist SLD party and Solidarity decided to withdraw from direct politics after failing to surpass the 5% threshold. At the grassroots, it seemed that the political divide inherited from the 90's faded away as for the first time the majority of Solidarity members voted for post-communists in elections (Gardawski and Meardi).

Immediately after taking office, the labor minister changed the organization of the Tripartite Commission for Economic Affairs by making it more representative and efficacious. The Act on the Tripartite Commission institutionalized social dialogue at the sectoral level and changed the rules of representation at the national level by allowing unions with more than 300000 members to take part in negotiations. Also, the Act adopted similar conditions for employers' associations' proportional representation in the Commission. In theory, the de-politicizing of trade unions, by taking them out from the Parliament and making the Commission more representative should have strengthened the social dialogue.

In addition, negotiations for a new labor code were started by involving the social partners. At the beginning the negotiations were promising as the trade unions seemed to work on a common position. However, by February 2002, OPZZ defected from the negotiations by refusing to accept any of the proposals forwarded by government in spite of the modest changes contained in them. The official reasons for OPZZ's exit were the “controversial proposals, concerning the reduction of overtime work rates and the possibility of concluding a larger number of fixed-term contracts”.

At the same time the government was shaken by corruption scandals which led to significant decreases in levels of confidence and resignation of the Prime Minister Leszek Miller. Subsequently, the SLD registered an unequivocal defeat in the European elections and the government lost the support in Parliament from its junior partner. Following (Avdagic and

Crouch 2006) a relatively weak government and a weak and fragmented labor movement would make social pacts more appealing and produce a so called “alliance of the weak”.

However, this did not happen in Poland. After the negotiations for a new labor code failed the labor minister continued to push for the adoption of a new social pact. In February 2003 a new initiative – pact for labor and development – was proposed to social partners. The leader of NSZZ Solidarność signed a preliminary declaration stating the willingness of the union to participate in negotiations without consulting the national commission of representatives (EIRO 2002). As expected, Solidarność’s national commission forced the exit of the union from negotiations. The union did not trust the left wing alliance forming the government at that time nor was willing to “borrow” its legitimacy to an agreement guaranteed by its representatives.

The other two unions present in the Tripartite Commission, the OPZZ and the Forum, continued to support the pact and by September 2003 the two trade unions reached an agreement on harmonizing corporate taxes and taxes levied on private individuals pursuing business activity (EIRO 2002). The pact was semantically downgraded to a “social agreement”. The government considered the agreement a major breakthrough and regarded it as a foundation for a more encompassing future social pact. NSZZ Solidarność continued to criticize the agreement and decided to reduce its participation in the Tripartite Commission to a minimum. According to Janusz Śniadek, one of Solidarność’s officials, the union did not “agree with the flat-rate tax (for private business owners) because it amounts to the introduction of a flat-rate tax through the back door. This will give rise to another incentive to force employees to give up contracts of employment and start business activity in their own name”.

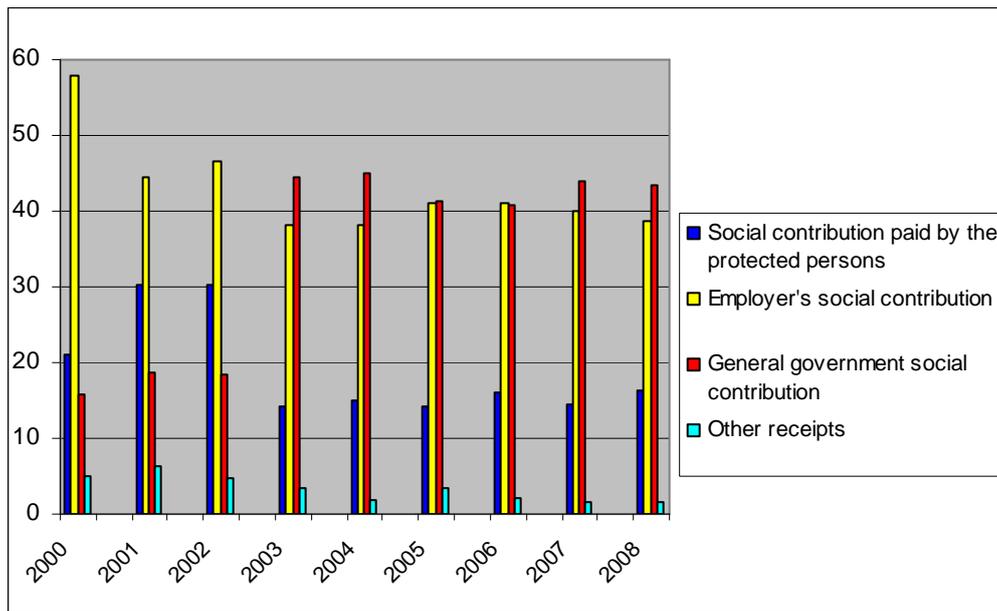
3.2. Explaining the outcomes of the Romanian Social Pacts

The social pacts had a direct effect both on the legislation and the benefits received by workers in the medium term. The Labor Code introduced several advantages for the trade unions: it stated the obligation for employers to involve trade unions in drawing up the standard work norms and to obtain the acceptance of trade unions to apply them; it required companies to pay 75 per cent of the wage to workers if the company is temporarily shut down; it also gave the right to trade unions to oppose some of management's decisions and propose measures to avoid collective redundancies and finally it stated that the trade union leaders cannot be fired while fulfilling their terms and for two years after their mandate is ended for reasons of occupational incapability (Mocanu and Mares 2005).

Furthermore, the social pact required the indexation of the public sector wages according to the inflation and the increase of the national minimum guaranteed income with 20 per cent. The pact also asked that the pensions of the least advantaged people to be correlated to the national average following a three year program while all other pensions to be correlated to the price increases. Other changes targeted child welfare protection and family support.

These changes have been reflected in the structure of social protection expenditure. Figure 3 displays the social protection receipts by type between 2000 and 2008. As it can be seen between 2002 and 2003 a major shift in the proportions of receipts took place. The government became the biggest contributor to social protection while the protected persons contributed the least. This indicates a strong position of the trade unions in the negotiations.

Figure 6: Social protection receipts by type (% of total contributions) Romania



*Source: Eurostat

The sudden appearance of social pacts in Romania implies that all the actors had a major interest in collective bargaining and that none of them had sufficient power to pursue their goals outside it. Further it suggests that the level of trust between unions and government increased as compared with the previous period. This might be an effect of the support which the trade unions gave to the social democrats in elections. On the other hand the unions needed a legitimizing mechanism. The 1997 economic recession affected the credibility of the trade unions among workers and deepened the belief that the trade unions are lacking the power to act in the interests of the workforce. Confronted with declining membership and fragmentation, the unions needed to regain their influence among the rank and file.

At the same time the strikes and lockouts as tools to force the government to grant benefits to workers became less efficient. Following a wider European trend, the Romanian unions lost some of the capacity to mobilize workers. Despite the fact that strike levels were still above the CEE average, they gathered half of the workforce they used to bring together in the 90's. In addition, the political agreement between the social democrats and unions

required unions to stop the strikes in the industrial sites and channel their demands through the tripartite institutions. As a sign of trust, immediately after taking office the government addressed the poverty problems faced by the least advantaged workers by increasing the guaranteed minimum income as well as granting them other social benefits (tax exemptions, school aid for children, subsidies for utilities).

The international financial institutions (IFI's) required Romania to address the problem of the labor market flexibilization and create more opportunities for foreign investment. This position was supported by employer's associations also which required new legislation and better investment opportunities. Caught between the pressure stemming from the IFI's, employer's organizations and the political agreement with the trade unions, the government had to enter in negotiations with the social partners each year from 2000 to 2003. A recurrent problem in the agenda of post-communist government was the privatization of SOE's which in 2000's was still lagging behind other CEE countries. However, the experience of the previous efforts to privatize demonstrated that the insider's interests cannot be simply overlooked and that the trade unions need to agree with the privatization if the process is to be successful. To address this issue the government had to use a compensation mechanism in order to "buy" the social peace and continue with the reforms.

The mechanism chosen by the government was the increase of the coverage and benefits provided by the social services. The share of social expenditures allocated from the state budget increased from 13.7 percent in 2001 to 14.6 per cent in 2004. This reflects the commitment of the government to address the problems raised by the social protection sector. On the other hand it shows that the trade unions obtained important concessions from the government and took advantage of the political context for achieving their goals.

The social pacts emerging in Romania after 2000's are the consequence of a contextualized political exchange which resulted in a win-win situation for both parts. The

government continued the reforms and privatized some of the big companies which were draining the state budgets for years. An example of successful privatization with the involvement of the trade unions is the Sidex Galati steel factory which was privatized in 2004. As Figure 1 shows after 2004 Romania left behind Poland in privatizing the SOE's. Social pacts allowed unions to defend worker's grievances and to participate for the first time in tripartite negotiations which ended with a national agreement.

From this point of view the social pacts emerging in the 2000's served specific policy interests of the actors involved (privatization and complying with the requirements of IFI's for the government; re-legitimizing, improve the situation of the rank and file and stop the membership decline for the trade unions). Also they responded to the functional need of the actors involved to solve specific policy issues and contributed to the mutual trust between the government and the trade unions. In consequence we witness their multiplication up until the mid 2000's. This is consistent with Avdagic's (2005) analysis of social pacts in Europe who argues that social pacts beget social pacts.

An interesting effect of the institutionalization of the bargaining was that the illiberal solutions became unappealing to the trade unions. Until 2000 the right wing party – the Great Romania – tried to gain votes from the unsatisfied workers. It was the first party to declare the support for the coming of miners in Bucharest in 1999. Part of the workforce resonated with this message which was reflected in the in the electoral scores of the party. However, following 2004 the party followed a steep decline in electoral support which also shifted its main message by moving it closer to the center.

To sum up, the balance of power between trade unions and the government ensured that none of them would be better off by exiting the negotiations. This oriented the bargaining towards specific claims which provided advantages for all parts. Further, the mutual trust between the left and the unions which was forged during elections made opportunistic

behavior less likely to appear. Thus the political involvement of the labor is not automatically detrimental to union organization but can lead to benefits given that the cooperation is extended outside the electoral years.

3.3. Explaining the absence of Social Pacts in Poland

Social dialogue in Poland displayed similar characteristics to the one in Romania up until early 2000's: low levels of institutionalization, fragmentation and politicization of the union movement and declining levels workforce support for unions' demands at the national level. Yet, while in Romania national tripartite agreements emerged once the left parties came into power, in Poland no such thing happened. So what makes the two cases diverge?

Looking back, the privatization of the SOE's deprived labor of an important strategic resource. Trade unions lost their influence at the enterprise level and became relatively passive by mid 90's. A survey on union activity at the firm level in 1999 reported that generally unions had little or no influence on the decision making and that collective bargaining agreements are rare and rather formal than substantive (Gardawski 2004). Generally the unions agree with management's position and workers do not consider unions as representing their interests. Rather than using the unions to channel their grievances workers preferred to bargain directly with the management.

The years between 1996 and 2000 were a period of pacification of the Polish labor movement. Mistrust in unions at the plant level backfired on their capacity to mobilize workers. The data in Table 3 show that the number of working days lost because of strikes decreased dramatically. Concomitantly the national confederations lost contact with the unions at the workplace. Their agenda is mostly influenced by the national politics and less by the grassroots needs. Some authors (Jackiewicz 1994) went even as far as contesting the status of Solidarity as a union movement. By losing their ability to mobilize workers around

work related issues the national unions lost the power to exercise a significant *strike threat* on the government and bring their agenda to the negotiation table.

Social pacts are a viable strategy when the partners entering the bargaining have an actual influence over the outcome. Historically social pacts arise after periods of labor unrest and excessive wage growth (Marginson and Meardi 2006). None of these conditions was fulfilled in the Polish case. Aside from labor quiescence wage growth displayed a significant inertia during transition. This happened because successive governments have been committed to fiscal austerity measures and also due to the persistent high levels of unemployment. Therefore the governments did not have any incentives to sign tripartite agreements as they were able to implement their policies without the agreement of the trade unions. Outside a credible treat no state-labor bargaining is necessary.

This brings me to the final point, namely that the state has always been the most powerful actor in Poland. While the organizational and political capabilities of the Polish unions declined throughout transition the capacity of the Polish state remained fairly stable (Figure 2). This allowed the state to by-pass the tripartite institutions and take work related legislation directly to the Parliament whenever organized labor signaled opposition. Avadgic (Avdagic 2003) contends that the tripartite negotiations in Poland are the poorest among the CEE states because successive governments have unilaterally decided not to use the Commission. Despite its formal adoption in 1994, the institution has been mostly inactive. Between 1997 and 2000 four indicative wage agreements have been reached but no social pact was on the agenda.

To conclude, the loss of the membership base coupled with a strong position of the Polish state led to the absence of social pacts in Poland. Bargaining was rather the exception than the rule and was limited to wage agreements. Wider policy reforms were adopted unilaterally by the government with only a consultative role from the trade unions side.

CONCLUSION

The aim of this thesis was to sort out what explains the position of trade unions in Romania and Poland and more generally to examine whether the unions in Central and Eastern Europe are as weak as the literature on industrial relations expects them to be. I found that there is a noteworthy variation in how unions played out their roles at the workplace and that they perceived their position relative to other actors in very different ways. Whereas in Poland trade unions adopted a pro-reform position which deepened the gap between worker's preferences and the position of the confederations in Romania the unions kept a conservative tendency towards the government policies. By choosing to preserve their traditional membership base and to keep a strong position against the government in the early phases of transition improved their opportunities to organize workers afterwards. This suggests that the legacies of unionism cannot be considered as equally negative. Rather their influence is dependent on how unions played out their position at the onset of transition.

Furthermore, the political involvement of the trade unions does not by itself determine union weakness. From this point of view the two countries stand at the opposite sides. In Romania the unions preferred to be politically involved and direct their preferences mostly through informal channels. At the same time they were more pragmatic than the Polish unions which allowed them to formulate better demands and exercise more influence on the governments.

By comparison the Romanian governments were less capable of achieving their policy goals than the Polish governments which made them more likely to respond to union demands. From this point of view, strikes as tools to attain particular goals worked better in Romania than in Poland. Partly because of their incapacity to act by themselves and partly out of populist tendencies the Romanian governments have been more responsive to the

demands of the trade unions.

The social pacts which emerged in Romania at the end of transition stand out as instances of union relative strength. They prove that the Romanian labor movement has the potential to define a common interest and overcome the difficulties associated with post-communism. As it has been argued what mattered was the capacity of unions to define common policy interests and their relatively strong position *vis a vis* the government. On the other hand a key factor in reaching an agreement between government and unions was the *trust* which the two actors gained during the electoral campaign on the previous year.

This paper contributes to the industrial relations literature on Romania and Poland by revealing what were the choices made by labor in the early periods of transition and how these choices influenced its position afterwards. It shows that in a poorly institutionalized environment, as it was the case of Romania, the trade unions compensated for the lack of an institutional infrastructure by using their influence at the workplace.

Further the thesis unfolded two facets of labor mobilization in Romania. On the one hand constant mobilization might be considered a sign of labor weakness. Trade unions never had their demands fulfilled by the government which opened a vicious cycle between union activism and government populism. On the other hand throughout transition the governments always tried to take labor's position into account. This shows that politically the Romanian unions remained strong and used this position to achieve their goals.

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