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Who Should Fill the Gap?

Economy and Prosperity in Central Eastern
and South-eastern Europe, and the Possibilities
of Trade Unions

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About the authors

Valeska Hesse and **Daniel Reichart** have led, since September 2014, the regional project titled »Building Trade Union Networks and Establishing Social Dialogue in Central Eastern and South-eastern Europe« based in Bratislava and field offices in Belgrade and Warsaw.

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Recently, the economic and labour market indicators in most countries of Central Eastern and South-eastern Europe have taken a positive turn once again. However, the social situation remains tense, precarious labour conditions have spread and convergence seems to be a long way away. The separation of economic growth and advancement of prosperity is the result of pay moderation policies in the recent years, a lack of social dialogue between social partners and governments, as well as a feeble trade union movement and its potential negotiation partners among employers.

SUMMARY

- The economic and labour market indicators in most countries of Central Eastern and South-eastern Europe have taken a positive turn, but the social situation remains tense. Precarious labour conditions have increased and the goal of achieving convergence between the old and new EU member states has receded into the distance – something that must seem very unrealistic for the accession countries.
- The separation of economic growth and advancement of prosperity is the result of recent policies focused on deliberate curtailment of employee rights, a lack of social dialogue between social partners and governments, as well as a feeble trade union movement and its potential negotiation partners among employers.
- The campaign aimed at »Ending Cheap Labour« by the Czech Trade Union Association is a remarkable example of how unions in this region try to win back social and political manoeuvring room.
- At a time when European integration is in a crisis, »Social Europe« has shifted back into focus and is stronger than ever. This presents both a chance and a challenge for the unions to put forward their long-standing demands more effectively.

FOR MOST PEOPLE, THE POSITIVE TURN IN THE DEVELOPMENT OF THE ECONOMY DOES NOT RESULT IN AN IMPROVEMENT OF THEIR LIVING AND WORKING CONDITIONS

After the economically desolate years following the breakout of the worldwide economic and financial crisis in 2008, most countries in Central Eastern and South-eastern Europe recorded, to some extent, a positive economic development.¹ Particularly in the so-called V4-countries (**Poland, Hungary, Czech Republic, Slovakia**), the export industry

has continued to grow. Also **Bulgaria, Romania, Croatia** and **Serbia** have shown solid growth rates. The situation of the small national economies in the countries of the Western Balkans, however, remains tough: investment constraints, lacking infrastructure and excessive bureaucracy were tackled too slowly, the economic structures remain shaped by shadow economies and public debt is high. Nonetheless, all countries of the region displayed positive growth rates in 2016, though the question remains whether this growth can be sustained.

Despite this overall positive economic development, the social situation remains tense – many people, mostly those living in the country, are threatened by poverty and inequality. Poverty, measured using the Gini-coefficient, has grown not only within the individual countries, but also across the region as a whole. In the Western Balkans, around a third of all households live in poverty, more than double the percentage of the EU. The labour market indicators in the entire region manifest positive development. In the V4 countries, unemployment has fallen below 10 percent since 2015. In some countries, for example in the **Baltic countries, Slovakia** and **Hungary**, the economic development increasingly suffers because of a lack of skilled labourers. In addition to demographic factors, the situation is partly affected also by the substantial migration of skilled labourers during the economic crisis. In the Baltic region, governments took relevant measures aimed at facilitating the hiring of skilled workers also from non-EU countries, for example, by making issuing of working visas easier.

Even though the employment rate of the whole region is rising, a critical view reveals that the new jobs are often characterized by often precarious working conditions, which do not meet the criteria for »good work«. These include, among others, temporary work contracts, easier contract work mostly resulting in conditions that are worse than those of the permanent workforce, or encouragement of curtailed notice periods. In Croatia, for example, unions have reported that as much as 90 percent of all new employment is temporary. In Poland, many employees are hired under so-called »trash contracts« – work contracts subjected to the civil law rather than the labour code. Many people cannot survive on their salary and have to rely on social transfers. What is more, a number of employees are not entitled to receive a pension and are thus threatened by old-age poverty. In this area, only **Slovakia** and **Slovenia** are swimming against the current, as they have restricted contract work in their new legislation – the 2013 reform of the Slovak labour code limits, among other things, contract work to a maximum of two years, and also offers a more narrow definition of atypical employment relationships. In **Slovenia** a restriction was introduced in 2015 that only allows 20 percent of all company employees to be contract workers. However, in 2016 practices were uncovered in large corporations that avoided these restrictions by means of using »sub-companies«.

Integration of women, youth and the long-term unemployed on the labour market has been difficult to achieve. In the **Western Balkans**, every fourth person is unemployed and the region is marked by the highest

¹ This contribution takes into account the development in Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Bulgaria, Romania, Croatia, Slovenia, Serbia, Montenegro, Kosovo, Macedonia, Bosnia-Herzegovina and Albania. For detailed data and analyses of individual countries, see the Annual Reviews of FES at: <http://www.fes-socialdialogue.org/publications/>.

youth unemployment rates worldwide. Also in other countries of South-eastern and Central Eastern Europe, youth unemployment remains a grave problem, despite government-funded promotion projects and various legislative initiatives aimed at facilitating the entry to the labour market for young people. It is young people in particular that are most strongly affected by the above mentioned precarious employment conditions.

PAY CONVERGENCE A LONG WAY AWAY

The sluggish development of wages since the crisis has seriously questioned the convergence of pay levels – one of the main concerns of the European integration – between new and old (as well as future) EU member states. The wage level in the new EU member states is at about 35 percent of the EU average, and the Western Balkans struggle with *per capita* income at about 30 percent of the average income in the EU.

In some countries, the unions succeeded in enforcing a significant raise of the minimum wage, often after year-long negotiations. Nevertheless, the minimum wage is frequently still too low to afford a decent life. In **Hungary**, for example, the unions managed to take advantage of the tense situation on the labour market, brought about by a lack of labour force, and effect a major increase of the minimum wage in the course of two years (15 % in 2017 and 12 % in 2018), while the employers could negotiate a lowering of wage levies. After **Serbia** witnessed a failure of the tripartite negotiations attempting to raise the minimum hourly wage for three years in a row, a conclusion was finally reached in 2016 leading to an increase (from the current approx. 0.98 euro to the future 1.06 euro per hour) to come to force in 2017.

WEAKENING OF EMPLOYEE AND UNION RIGHTS

The above mentioned separation of economic growth and development of prosperity is the result of politically imposed weakening of employee and union rights. As a consequence of the financial and economic crisis, the governments of most countries in the region (particularly in **Hungary, Romania, Croatia** and **Serbia**), partly under the pressure of international investors, amended their employment legislation with the objective to make the labour market more flexible, to legalize precarious employment conditions, to suspend valid collective agreements, to further decentralize collective bargaining to the operational level, and to weaken employee representatives via e.g. tougher representation criteria. By doing this, governments hope to reduce social standards and wage costs in order to raise the competitiveness of their often export-oriented economies.

Despite the dubious economic and social consequences of such policies, this trend further continued in 2016. In June 2016, an amendment of the labour code was adopted in **Lithuania**, titled »new social model«. It came into force early in 2017. The unions vigorously protested against the amendment both on the national and international levels

because – among other things – the legislation eases protection against dismissal, allows precarious employment conditions and establishes adverse rules for employees about overtime work. In **Bosnia and Herzegovina** and the **Republika Srpska**, without any discussion between social partners, new labour laws were adopted in 2015 and 2016. The new legislation has restricted the role of the unions and collective bargaining and failed to implement better protection mechanisms for violations of labour laws (e.g. using enough labour inspectors). Besides, all valid collective bargainings were annulled and will have to be negotiated anew on the current legislative basis.

SIGNIFICANT REDUCTION OF COLLECTIVE AGREEMENTS

The coverage provided by collective agreements in the region has been significantly reduced in the recent years. In the private sector, collective negotiations take place predominantly at the local company level – this is caused by the structure of the economy (numerous small or medium-sized enterprises with few employees) and, in turn, results in what is an already low agreement coverage. In the few countries, where collective agreements are usually negotiated on the industry level, the bargaining is increasingly decentralized and shifted back to the local company level. Collective agreements in the public sector, traditionally much more common than in the private sector, were either unilaterally terminated or not renewed during the crisis. This erosion in collective bargaining is proved also in a study conducted by the ILO.²

In **Latvia**, the number of collective agreements has shrunk by a half since 2008, in **Slovenia** by a quarter, and in **Slovakia** by 15 percent. In **Romania**, where the amendment to the labour law turned out to be particularly adverse towards the unions, the coverage fell from 70 percent to 20 percent. Following a law from 2011, in order to be able to conclude a collective agreement on the local company level, at least 50 percent of employees have to be organized in unions (instead of 30 percent in the past). The necessary membership number to establish a trade union was raised and, moreover, trade unions can be founded only in enterprises with more than 20 employees. Because 90 percent of all companies in **Romania** have fewer than nine employees, the representation of employee interests is systematically undermined. A small concession has been made nonetheless: following another law amendment, the representation of employees of small companies (that cannot have works councils) in collective bargaining is taken over by the corresponding trade union at the industry level.

This kind of deliberate controlling of collective bargaining is a problematic development for legal reasons (the right to collective agreements is one of the core labour norms of the ILO that was ratified by the countries

² Visser / Hayter / Gammarano: Trends in Collective Bargaining Coverage: Stability, Erosion or Decline? Issue Brief No. 1 Labour Relations and Collective Bargaining, International Labour Office, October 2015.

in the region), as well as from the viewpoint of social justice. It is problematic because the removal of collective agreements that are effective in the entire area will shrink the possibilities to efficiently safeguard minimum standards for all employees, and especially to offer better protection for those working in precarious employment conditions. The Slovak trade union association KOZ has calculated that the salaries of employees who work within the framework of a collective agreement in Slovakia are, on average, 17 percent higher.

FEEBLY PRONOUNCED SOCIAL DIALOGUE

The already weak social partnership and cooperation and the relevant institutions in the region have suffered in consequence of the above mentioned reforms. Social dialogue – as a means of negotiation and exchange between social partners and governments in such areas as economic, social and labour policy – is, in most countries of the region, insufficient, and the relationship among social partners suffers from a lack of trust in many places. In most countries, there are no systematic consultations about proposed legislation affecting employees and unions. The unions receive relevant information from the media rather than directly from the government. Also documentation, which has to be drawn up as part of the »European semester« – the yearly coordination process of EU's economic policy – by the governments of EU member states, is agreed on either insufficiently, or not at all.

In **Hungary**, the economic and social council for tripartite social dialogue was dissolved in 2010 and replaced with a new institution. The unions now depend entirely on the good will of the government if they want to consult their issues. Fortunately, in 2016, the role of tripartite social dialogue regained some of its value within the framework of another institution – the »Consultation Forum for Industry and Government«. In **Romania**, the government eliminated the possibility of social dialogue in 2011 on a national scale, as well as of universal collective agreements to determine minimum standards. In **Bulgaria**, the »National Council for Tripartite Cooperation« was reduced in 2016, which was connected to the smouldering government crisis on the one hand, and the unwillingness of government decision-makers to involve social partners in the discussions about crucial issues. Besides, trade unions and employers seem to be in irreconcilable opposition. Also in **Serbia**, social dialogue has become dysfunctional and limited just to an exchange of information between social partners, mostly without any genuine intention to negotiate towards mutual compromise. The government works unilaterally and the social partners insist on their positions. Because the previous conservative government was reaffirmed in its position after the election in 2016, there seems to be no improvement in sight.

But there are also positive developments: in **Poland**, a new government-independent »Council for Social Dialogue« has been in place since late 2015. The foundation for the council was already laid by the previous liberal-conservative government – the unions and

representatives of employers discussed the relevant legislation and envisioned a more important role for social partners than before. The three-member committee reports to the Parliament and its members are nominated by the President. The Board, which previously always included the prime minister, now has members that change every year. Chairman of the Solidarity Union, Piotr Duda, was elected the first President of the council. In October 2016, Henryka Bochniarz, chairwoman of the workers association »Lewiatan«, became his successor in the position. The council operates a budget in order to be able to take measures necessary for social dialogue and to fund further training. The collaboration between the unions and the controversial national-conservative PiS government in the council has worked surprisingly well, which is evidently also a result of the alliance between Solidarity and the PiS party. However, some of the observers have criticized the instrumentalization of the council by the government. The government may rhetorically attribute much importance to tripartite social dialogue, but in reality the council only plays a marginal role in the law-making process. Legislation proposals are mostly discussed only in parliamentary committees that are out of the social partners' reach. As a result, the council hosts bilateral meetings and negotiations of employers and employees.

The participation of a social-democratic party in the government (since 2014) in the **Czech Republic** has spurred social dialogue. The government has planned financial support for social partners to allow a full transformation of their work in economic and works councils; relevant legislation proposals have been consulted with social partners. The relationships between the government and the trade unions are – according to Josef Stredula, chairman of the Czech Trade Union Association (CMKOS) – the best in 25 years.

In **Slovakia**, too, the framework for social dialogue is favourable while a social democratic party is in power.

In addition to the government, employer associations also play a crucial role in successful social dialogue. And this is exactly why dialogue often fails: particularly in South-eastern Europe, trade unions have no negotiating partners for collective bargaining at the industry level, because there is no obligatory membership in employer associations and these are similarly fragmented as the trade unions.

STRUCTURAL CHALLENGES FOR THE TRADE UNION MOVEMENT IN THE REGION

Besides the restriction of employee and trade union rights, as well as a feeble social dialogue between social partners and governments, the trade unions in the region are still facing many structural challenges: since the system change in the 1990s, union organization in the region has been steadily diminishing and is currently, according to conservative estimates, under 20 percent in most countries of the region. In the Baltic countries, it is even less than 10 percent. In the Western Balkans, the figures are slightly higher than in Central Eastern Europe, which is caused by the fact that in these countries, the government is often

the largest employer. Since 2008, the downward trend in the membership numbers has accelerated again and put the trade unions under ever increasing pressure, because they have been gradually losing their most important power and financial resources (in membership fees).

There are various reasons for the decrease in membership numbers: the world of labour has changed and precarious and atypical forms of employment make the organization of new members more difficult. The privatization of state-owned enterprises, such as airports, post offices, telecommunications or banks, which is still pending in some countries of Southern Europe, as well as the outsourcing of public services to private companies, also makes trade union organization more difficult and contribute to the falling numbers in membership. Trade unions increasingly concentrate in the public sector, while the private sector is ever harder to enter. Another important factor is that trade unions in many countries of the region still struggle with their position as a relic of the old socialist system. And last, but not least, the trade union movement also suffers from its fragmentation and competitiveness among its umbrella organizations. For example, in **Serbia** alone, more than 24,000 trade unions are registered. Also in **Hungary**, five trade union associations compete for less than 10 percent of organized employees. Internal conflicts, like the current one in **Montenegro** or **Macedonia**, which assume partly violent and anti-democratic forms, cripple and discredit the trade union movement. Old, crusty structures and overaging put young people off, and involvement in corruption scandals has squandered the people's trust in trade unions.

RECENT TENDENCIES

In the last years, necessary reform and renewal processes have accelerated within trade unions, partly through the so-called »organization initiatives«. They have focused on finding new members. These initiatives take an increasingly transnational approach and are supported by Western European trade unions (mostly from **Scandinavia** and **Germany**), or by the so-called Global Union Federations. However, they also contain a great deal of conflict potential, particularly in reform-resistant trade unions.

This also addresses the increasing economic interdependence among the countries in the region. In the meantime, many European value-added and supply chains have moved to countries in Central Eastern and South-eastern Europe, where the trade unions are – particularly in the newly established industries and enterprises – chronically weak. Instead of wished-for development and convergence, there has been an increase in dumping competition among the locations in different countries.

Some of the unions in the region, especially in Central Eastern Europe, have realized that they will have to make a contribution to extend the social-political playing field of the trade unions and make constructive proposals to introduce social arrangement of the economy and the labour sector. An outstanding example here

is the Czech trade union association CMKOS, whose chairman, Josef Stredula, helped start a publicly effective campaign to »End Cheap Labour« in 2016. Also in the European and sub-regional trade union panels, the Czech trade union chairman has been particularly active when discussing this issue (keyword »pay convergence«) and has thus motivated other trade union associations in Central Eastern Europe.

RETURN TO »SOCIAL EUROPE«!?

The trade unions have advocated a »social Europe« for a long time now. As a consequence of the diverse crises the European Union is currently facing, it seems that the European Commission under Jean-Claude Juncker now also reflects this principle again, as it initiated an open consultation to establish the »European Pillar of Social Rights« in 2016. The unions have generally welcomed the initiative; however, there has been also criticism, because it is not clear what should be the legal significance of such rights.

The European Trade Union Confederation took the opportunity of having this debate to propose an agenda for a better future of the EU in closer coordination with its member unions. The demands presented in this agenda can also be viewed as a response to many of the above mentioned challenges:

- European Pillar of Social Rights, which legally puts fundamental social rights in EU agreements on the same footing as the four liberal-economic basic freedoms of the single market;
- fair transition to digitization that confronts the threat of precarious employment conditions, especially for young people;
- increased public investment;
- pay rise that could, particularly in Eastern Europe, fill the gap between the achieved productivity growth and what is often only moderate increase of wages, and to contribute to a growing convergence among the EU member states.

Also, there should be improved participation of trade unions in the European economic control mechanisms, such as the European Semester, via consultations and statements.

Even though the economic situation in some countries got better again in 2016, the trade unions will have to make sure that social standards in the region will be adjusted upward and included in the social dialogue at the national and European level. The social dimension of Europe became, on the backdrop of the crises, not only an essential lever to improve the rights of employees, but also an important element for the survival of the European integration as such. This is a great opportunity as well as a responsibility for the unions both on European and national level.

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