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Labor’s Travails in Postcommunist Eastern Europe

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Labor Shifts

Sixth in a series

The role played by the Solidarity union in weakening the communist regime in Poland, together with scenes of workers across Eastern Europe celebrating the fall of the Berlin Wall in 1989, fueled hopes that labor would play a vital role in postcommunist transitions. Laborers frustrated by the unfulfilled promises of a “worker’s paradise” would assist in the dismantling of stagnant command economies and the creation of dynamic market economies. Trade unions, freed from the shackles of the communist party-state apparatus, would spearhead a nascent civil society and help consolidate democracy. And private businesses would bring prosperity and upward mobility to an energized workforce that previously had little incentive to be productive.

Within a decade, such optimistic visions would be cast aside as union membership plummeted, unemployment rose, real wages fell, and workers scrambled to survive in a rapidly changing environment. Gone were the guarantees of full employment and the array of social benefits that communist regimes had provided. Instead, workers now contended with more fluid labor markets, private businesses pushed for greater flexibility in employment relations, and states cut back on social safety nets under pressure from international financial institutions. Trade unions struggled to define their roles, particularly since workers saw little point in paying dues to organizations that neither managed their social benefits, as they had in the past, nor protected their livelihoods. By the end of the 1990s, the conventional view of labor in Eastern Europe was that it had become weak and quiescent—and could do little more than watch as workers were left to the mercy of their employers amid turbulent changes.

After the first decade of transition, more routinized modes of labor politics gradually took hold across Eastern Europe (limited here to the eight countries that saw communism fall in 1989 and later joined the European Union: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia). As the institutional setting became more stable and predictable, workers, unions, firms, and political elites began to figure out their respective roles and interests. Neither the legacy of communist-era labor relations nor the extreme uncertainties that arose in the immediate aftermath of communism’s collapse exerted the same dampening effect on labor politics as they had during the first decade of transition. Instead, different countries throughout the region settled into their own distinct modalities of labor politics.

This did not necessarily warrant a return to greater optimism concerning labor’s prospects or imply a convergence in East European labor relations. But the game being played by labor, business, and the state throughout Eastern Europe began to more closely resemble patterns in Western Europe, at least in terms of the various actors’ interests and strategies. In the process, differences began to appear in the extent to which labor in some places managed to figure out ways to limit the erosion of employment security and workers’ rights even as employers kept pushing for greater flexibility in managing their workforces.

THE WORKER’S STATE

After World War II, East European communist regimes adopted the Soviet model of labor rela-

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tions. That model was predicated on a vision of workers, enterprise directors, and the government all collaborating to advance the collective interests of the working class. In line with Marxist principles, the absence of a class of capitalist entrepreneurs implied that the means of production were now in the hands of a "dictatorship of the proletariat," with no fundamental differences between labor and management. Workers had an obligation to carry out their tasks in the prescribed manner because those who assigned the tasks were acting on behalf of the proletariat. In exchange, the entire workforce had a fundamental right to full employment and access to basic necessities, barring reassignments due to the reorganization of production or disciplinary violations serious enough to warrant dismissal.

Within this normative framework, factory and branch unions were part of a single unified federation. They functioned as transmission belts designed to advance the goals of the communist party-state apparatus, affirm the harmony of interests between workers and managers, and ensure the fulfillment of production targets set by central planners. Trade unions were "consulted" on all dismissals and reassignments, but for the most part there was low turnover and very little controversy over personnel issues.

Within a decade, unions in postcommunist countries lost between 40 and 60 percent of their members.

A key function of unions at the factory level was to manage the extensive network of social benefits guaranteed to workers, from health care and recreational facilities to primary education for their children. Within this system, there was no opportunity for unions to organize strikes or to participate in regular collective bargaining. Beyond the formal right to sign off on dismissals or reassignments, communist trade unions did very little that bore any resemblance to the activities of independent unions elsewhere.

Communist-bloc trade union federations did, however, participate actively in the International Labor Organization (ILO), staking out the position that labor rights were first and foremost about job rights guaranteed by the state. The ILO was one of the major Cold War ideological battlegrounds for the "hearts and minds" of the Third World. Western labor organizations focused on freedom of association as manifested in independent (nonstate) trade unionism; by contrast, East European labor officials emphasized the material security enjoyed by a working class that was assured of full employment and universal access to basic welfare provisions. By the 1980s, most communist regimes had ratified more ILO conventions than the United States and many West European countries. In the postcommunist period, this would enable trade unions to invoke ILO conventions in debates over labor regulations.

Most communist bloc countries by the 1970s had adopted remarkably similar labor codes that contained elaborate clauses regarding full employment, guaranteed social benefits, and a sort of "social contract" linking gains in productivity to steady increases in bonuses. These codes were premised on the Marxist vision of industrial society as essentially the "end of history," at least in terms of the organization and technologies of production. In other words, the communist system of industrial relations took for granted an unending era of Fordist mass production. The connection of workers to their enterprises and enterprise unions was something to be valued and maintained, and not much was expected by way of fundamentally new sets of skills or technologies (in marked contrast to the subsequent post-Fordist emphasis on flexible labor markets, shifting skill sets, and constantly evolving technologies of lean production).

Undoubtedly, this rigid system of labor relations stymied productivity and economic growth in places that had previously experienced significant industrialization (notably, Czechoslovakia in the interwar period). At the same time, it brought an unprecedented level of material security to workers in other parts of Eastern Europe.

SHRINKING UNIONS

After the fall of communism, the restructuring of labor became an integral part of the larger project of building democracy and markets. New laws and institutions had to be created to govern potentially conflictual relations between employees and a new class of private employers. In most East European countries, new decrees established the right to strike, set up collective bargaining procedures, and organized tripartite commissions—corporatist institutions designed to facilitate bargaining and dialogue among labor, business, and the state. None of this had been deemed necessary under communism, given the presumed unity of interests joining labor and management in a workers' state. After 1989, labor relations had to be reconstituted on a quite different assumption—that workers and employers had an intrinsically adversarial relationship marked by competing interests that had to be periodically reconciled.

In this rapidly changing environment, trade unions—whether descended from the communist labor apparatus or newly organized in particular sectors or firms—had a difficult time exerting any influence on the reform process. Trade unionists had much to learn about how to define and articulate the discrete interests of workers against the interests of an expanding class of private employers. And they had to do this while membership dropped precipitously.

While union decline has been an ongoing phenomenon for more than three decades across most of Europe, in Eastern Europe the rate of decline during the 1990s was especially steep. Within a decade, unions in postcommunist countries lost between 40 and 60 percent of their members, with trade union density (the proportion of employees who are union members) plummeting from over 80 percent to under 35 percent in most cases. By 2000, union density in Hungary and the Czech Republic had dropped to 22 percent and 27 percent, respectively, while in Poland—despite the status of Solidarity—union density stood at just 17.5 percent.

The steepness of the drop was in part a reflection of the artificially high baseline inherited from communist regimes, which had set up near-universal membership for workers, with automatic payment of union dues tied to the distribution of welfare benefits. After 1989, automatic dues payments were abolished and unions no longer administered key social benefits for the working population, leaving rank-and-file members to wonder about the exact role of unions and the value of membership in the new environment. Union membership in Eastern Europe has continued to fall since 2000, but the average annual rates of decline are now closer to the declines seen elsewhere in Europe.

Anxious workers

Even for employees who remained union members, the efforts of trade union leaders and labor organizers appeared somewhat futile in light of the heightened level of uncertainty and anxiety among workers in the early part of the transition. In the five years between 1989 and 1994, most Eastern European countries' gross domestic product contracted by anywhere from three to five percent each year. (Poland was an outlier, with average annual growth of a whopping one percent.)

The next five years saw economic growth pick up throughout the region. However, as privatization took hold, many businesses quickly downsized. As a result, between 1990 and 2000, labor-force participation rates for the working-age population steadily fell across Eastern Europe, often by more than five percent (although Slovenia kept the drop to under three percent and Romania managed a 0.5-percent increase). By 2000, a majority of countries in Eastern Europe were also facing soaring unemployment, with jobless rates in Bulgaria, Poland, and Slovakia all exceeding 15 percent. High unemployment exacerbated the problem of declining union membership, while the lower rate of workforce participation shrank the pool from which new members could be recruited.

Unions' passivity in the 1990s was not simply a function of workforce reductions and declining membership. It also reflected the fact that employees who remained in unions did not feel empowered to engage in collective action, given the extreme anxiety that prevailed in the early years of the transition from communism. For workers, fear of losing their jobs was paramount, which made them disinclined to take the risks associated with participating in wildcat strikes or work slowdowns. Except in situations where they faced absolutely hopeless conditions—for example, due to unpaid wages or imminent layoffs already announced by employers—workers looked to their firms to keep them on the payroll so that they could at least take advantage of the benefits, resources, and connections available at the workplace to find side jobs and supplement their earnings.

Under these conditions, the lack of labor militancy was less a carryover from the intrinsically cooperative unionism of the communist era and more a survival strategy of anxious workers. When strikes did break out—as they did in Romania—the victories were at best pyrrhic within a broader context of rising unemployment and economic stagnation.

Learning the game

Further into the transition, labor relations in Eastern Europe became progressively more routinized. Legacies of communist-era labor relations and the uncertainties of the early years of transition came to have less of a bearing on the behavior of workers and on the overall patterns of labor politics. It became easier to identify the discrete interests of business associations and organized labor, both of which began to behave in a more predictable manner as economic conditions and political institutions stabilized.

A number of economic factors—an end to hyperinflation, respectable rates of growth, and the increased experience accumulated by both employers and employees in dealing with labor markets—all helped to produce more of a standard menu of issues on which labor and business could stake out their preferences. In terms of political institutions, while democracy was not consolidated in some countries (such as Romania) and party systems remained volatile in others (like Poland), the introduction of electoral competition and political leaders' desire to avoid social unrest created opportunities for larger unions to exert some pressure on legislators and government officials on key social policy issues.

Moreover, the accession to the European Union of several East European nations between 2004 and 2007 also brought into the mix some broader guidelines on labor relations shaped by the social clauses of the EU charter. While cross-national differences remained, the basic logic and dynamics of labor politics became less driven by the exigencies of postcommunist transitions and more akin to patterns long evident across Western Europe.

The transition to markets and democracy did not come with a blueprint for managing labor relations.

Under these conditions, trade unions, even those descended from the communist apparatus, adapted to their new roles and took on the sorts of challenges that labor typically faced in other parts of the world. They sought to stem the decline in membership, craft new recruitment strategies, manage competition with other unions active in the same sectors, build more legal and technical expertise to support collective bargaining, and find political allies who might back policies beneficial to workers.

Union membership and density kept falling, but at a much slower rate, producing a range of variation that was comparable to that seen across most Organization for Economic Cooperation and Development countries (not counting those long known for perennially high union density rates, such as Denmark and Sweden). By 2010, the average union density across the eight East European countries considered here stood at just above 20 percent, comparable to the average rate for the Group of 7 leading industrialized countries (Canada, France, Germany, Italy, Spain, the United Kingdom, and the United States).

The routinization of labor politics after 2000 is perhaps most clearly seen in the political battles that were fought across Eastern Europe in connection with the revision of labor codes. Although postcommunist reformers had not hesitated to dismantle the entire apparatus of central planning, they sought to reassure workers and prevent a popular backlash by leaving communist-era labor codes in place. Decrees issued in the early 1990s added new regulations concerning the right to strike and procedures for collective bargaining, neither of which had existed under communism. But old rules—notably, a high threshold for dismissals and the right of unions to contest them—remained on the books.

Economic reformers and business associations saw these inherited regulations as remnants of a defunct system that, in a post-Fordist era, stood in the way of more flexible organization of production and more efficient deployment of human resources. Throughout the early 2000s, proposals to revise or even eliminate labor codes were hotly contested across postcommunist countries. Trade unions sought to preserve as many of the preexisting worker-friendly regulations as possible.

The results of these battles depended on the ability of unions to coordinate their efforts, and also on the platforms and constituencies of the political parties heading each government. Unions in the Czech Republic were more successful than their counterparts in Poland in coordinating with each other and working with parliamentary allies to shape the revised labor code. They were able to limit the usage of fixed-term (temporary) contracts and expand the scope for collective bargaining as conditions for giving employers more flexibility on work schedules. Even if unions in other countries in the region were not as successful in slowing down the advance of "flexibilization," the debates and maneuvers during the process of revising the labor codes showed that labor, business, and the state had learned to play the game of industrial relations.

DIFFERENT TRACKS

The routinization of labor politics should not be seen as paving the way for convergence. Nor should it be taken as an indication that workers throughout Eastern Europe were uniformly better or worse off as a result. Despite the common challenges related to declining union membership and the mounting pressures for flexibilization, notable differences emerged across the region. In some countries, labor ended up in a better position in certain respects.

Perhaps the most significant variation concerns the level of unemployment. Among the eight East European countries considered here, the highest unemployment rates at the end of 2015 were in Croatia (15 percent) and Slovakia (11 percent), both well above the EU average. At the other end of the spectrum, the unemployment rates for the Czech Republic and Hungary stood at 4.5 and 6 percent, respectively. In between, we find Romania and Poland at 7 percent, and Bulgaria and Slovenia at 8 percent.

Any number of factors can account for the level of unemployment in a given country, and the rates have fluctuated over time within all of these countries. Nevertheless, the rankings have been stable for the past 15 years: since 2000, the Czech Republic, Hungary, and Romania have generally fared better than the EU average in most years, while Croatia and Slovakia have generally done worse. It is also worth noting that the unemployment rate in Poland exceeded 15 percent between 1999 and 2006, falling to single digits only after a spike in emigration following EU accession sharply reduced the number of active job seekers.

Communist trade unions did very little that bore any resemblance to the activities of independent unions elsewhere.

Significant variation is also evident in the ease with which employers can dismiss workers as per the revised labor regulations. This is most evident in redundancy costs, estimated by the weeks of salary an employer continues to pay during the notice period and the subsequent period of severance pay. A higher cost of dismissal for an employer theoretically indicates a higher level of job security for the average worker. According to the World Bank's 2010 *Doing Business* report, employers had the lowest redundancy costs in Romania (8 weeks of salary), Bulgaria (9), and Poland (13). The highest redundancy costs were borne by employers in Croatia (39 weeks of salary), Slovenia (37), and Hungary (35). The Czech Republic and Slovakia occupied the middle of the spectrum (with 22 and 26 weeks of salary, respectively).

These numbers have shifted a bit as a result of increasing pressure to conform to EU standards among East European member countries and of special measures adopted after 2010 amid the financial crisis. Redundancy costs declined in Hungary, Slovakia, and Slovenia, while Poland saw a modest increase. Even so, the cross-national distribution of redundancy costs prior to these shifts reflects labor's varying success in different countries in resisting the push for greater employment flexibility.

Of course, high redundancy costs do not always imply that the workforce is better off, since employers can bypass these costs simply by using more temporary contracts when they need to expand their workforces. In fact, the percentage of employees working under fixed-term contracts is another indicator that varies widely across Eastern Europe. As of 2015, the highest percentage of employees on fixed-term contracts was in Poland (22 percent), where the labor code imposes no limits on their use. The lowest percentages were found in Romania (1 percent), Bulgaria (4 percent), the Czech Republic (8 percent), and Slovakia (9 percent). In between, we find Croatia (17 percent), Slovenia (15 percent), and Hungary (10 percent).

A high percentage of employees on fixed-term contracts may not be problematic for a workforce in countries (such as Sweden, where 15 percent of employees are on fixed-term contracts) that provide universal welfare benefits and services whether or not the recipient is a full-time employee on a long-term contract. At the same time, a low percentage of employees on fixed-term contracts is not necessarily a positive indicator for a workforce in countries with high unemployment rates and a scarcity of long-term jobs. Still, on the whole, labor generally benefits from long-term contracts given the higher degree of job security and the prospects of better social protection through collective-bargaining rights.

In collective bargaining, too, we find significant variation across the region. The outlier is Slovenia, with 90 percent of its employees covered by some form of collective agreement. In fact, Slovenia is the one country in Eastern Europe where corporatist institutions such as tripartite commissions have worked quite well, producing not only near-universal coverage under collective agreements but also stronger enforcement of labor standards. After that, Croatia and the Czech Republic lead the way with, respectively, 60 and 40 percent of employees covered under a company-wide or industry-wide collective agreement. It is also worth noting that during the debates over revising the labor code, Czech unions pushed vigorously for collective bargaining as a condition for giving employers more leeway in scheduling overtime work.

At the other end of the scale, Poland became a classic example of what the political scientist David Ost has called "illusory corporatism." The main trade union federations (including Solidarity) were unable to develop a coherent strategy to defend labor's interests in its dealings with business and the state. There, the rate of coverage under collective agreements is somewhere around 15 percent. Bulgaria, Hungary, Romania, and Slovakia fall in the middle with about one-third of their workforces covered by some type of collective-bargaining agreement.

While a great many factors go into explaining why a particular country might do better or worse in any one of the above dimensions, we can discern significant differences in labor's overall strength, at least in countries at the opposite ends of the spectrum. Labor in the Czech Republic and Slovenia has generally fared the best in the region in pushing for employment stability and labor rights in the face of the mounting pressures for greater flexibilization in labor relations. Czech workers appear to be in a particularly strong position, with the lowest unemployment rate in the region; the second-highest rate of collective-bargaining coverage, after Slovenia; and the third-lowest percentage of employees on fixed-term contracts. Slovenian workers do better in terms of their extremely high rate of collective-bargaining coverage (with the added benefit of better enforcement of labor standards), even though they do not fare as well as the Czechs with regard to the unemployment rate or limits on fixed-term contracts.

Poland is perhaps closest to the opposite end of the spectrum. It has a historically high unemployment rate (reduced to single digits only after massive out-migration following EU accession), as well as the region's lowest rate of coverage under collective agreements and highest proportion of employees working under fixed-term contracts. Ironically, Solidarity's role in resisting the communist regime and its subsequent support for a rapid transition to a market economy made it difficult for the trade union to vigorously defend preexisting labor regulations even if they might have benefited the workforce. In addition, more radical factions left Solidarity while a separate federation originally set up by the communist regime was able to reorganize itself as an alternative trade union allied with leftist forces. This left Poland's workers without a cohesive labor movement to stand in the way of efforts to promote more business-friendly policies and regulations.

Croatia's position is arguably close to Poland's. Although Croatia has a much higher level of collective-bargaining coverage and imposes higher redundancy costs on employers, the potential benefits for workers are offset by a 15-percent unemployment rate and by the fact that nearly one-fifth of workers are on fixed-term contracts.

Fate of the Postcommunist Proletariat

Regulations aimed at strengthening social protections for the workforce are often seen as having unanticipated negative consequences in that they reduce the flexibility businesses need to remain competitive in the current era of global post-Fordism. It is not uncommon in any country for employers to threaten to downsize their workforces when faced with regulations that limit their freedom to adjust employment practices and production schedules to keep up with new technologies, changing training regimes, and fluid market conditions. Foreign investment may also be put at risk if global corporations view regulations as hampering their ability to operate efficiently in any given country.

Yet such negative effects do not appear to have materialized in the Czech Republic and Slovenia, the two countries in Eastern Europe where labor can claim to be in a relatively strong position. In fact, these two countries rank higher than their regional peers in per capita GDP (whether in nominal or purchasing-power-parity terms) as well as in the United Nations' Human Development Index, which combines per capita income with measures of life expectancy and education. In the World Bank's 2015 rankings, these two countries do trail Poland and Slovakia in the overall ease of doing business—but not by much. Their rankings and scores place them in the middle of the pack in Eastern Europe, with Hungary and Croatia bringing up the rear. And in terms of per capita inflows of foreign direct investment, the Czech Republic has also been one of the strongest performers in the region over the years (outpacing Poland by a two-to-one margin in 2010).

The point is not that stronger labor regulations are correlated with higher levels of economic and social development. It is that regulations geared toward labor rights and employment stability have not hampered growth or development in the Czech Republic and Slovenia. By the same token, systems with greater flexibility, as in Poland, have not necessarily brought any sustained advantages in growth or productivity, at least relative to the Czech Republic and Slovenia.

The transition to markets and democracy did not come with a blueprint for managing labor relations. Now, a quarter-century after the fall of the Berlin Wall, a range of pathways has opened for the postcommunist proletariat. Nowhere do we see tremendous prospects for galvanizing the labor movement or even halting the decline in union membership. Yet the small differences that have emerged in the dynamics of labor politics and the revised labor regulations, particularly after the turbulent 1990s, have not been inconsequential for workers and unions across Eastern Europe. Even with shrinking membership, unions in some countries have played the game of labor politics well enough to slow the erosion of job security and labor rights in a region where zero unemployment and universal social benefits were once the norm. Given the enormous scale of the tasks associated with the postcommunist transition, particularly in a post-Fordist age marked by growing pressures for flexibilization, this is no small accomplishment. ■