

Globalization and Trade Unions in Central and Eastern Europe

Seminar Report



International Labour Office

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Seminar Report

Budapest
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Central and Eastern European Team
Budapest

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Preface

On 22–24 November 1998, trade union leaders from 19 countries of Central and Eastern Europe met in Budapest at the invitation of the International Labour Organization (ILO) to map out union responses to the challenges of globalization. This report is a summary of the proceedings and conclusion of that seminar.

While globalization is not a new phenomenon, it has assumed increasing importance in the 1990s, magnified by the spread of communications technologies that allow both information and finances to be transferred across the globe almost instantly. This has made globalization a fundamental force – indeed, we can say without exaggeration that globalization underpins all the challenges faced by trade unions today.

The situation in Central and Eastern Europe is even more complex than for trade unions in other regions, since other processes also have a strong influence on the environment within which trade unions operate – political and economic transition, and European integration. The first refers to the transition from a centrally directed political and economic structure to one based on market principles and democracy. This transition has been longer and more complex than many people anticipated ten years ago. The second refers to the adoption of pan-European practices, and most significantly to the process of integration into the European Union. While the issue of integration is of most immediate concern to the five countries of the region currently invited to negotiations for EU accession, most countries in Central and Europe share the goal of eventual EU membership. This has meant important changes made in an effort to comply with EU standards.

At the seminar, Richard Falbr, President of CM-KOS (Czech Republic) and member of the ILO Governing Body warned that “without social standards, globalization will only bring disaster.” László Sándor, Acting President of the workers’ side of Hungary’s Interest Reconciliation Council, urged the region’s trade unions to take a leading role in the globalization process.

The ILO’s Deputy Director General, Kari Tapiola, underlined that the adoption of the ILO’s Declaration of Fundamental Principles and Rights at Work in June 1998 provided an important new tool for trade unions. Indeed, this document was the subject of great attention at the seminar, as a tool for trade unions in their own efforts to ensure that their respective governments do not neglect the most fundamental aspects of the social dimension. Endorsed by all governments of the region, the Declaration commits them to respect the fundamental rights of workers, including their right to organize, to operate freely, and to engage in effective collective bargaining.

Naturally, the issues raised by the accession of Central and Eastern European countries to membership in the European Union also figured prominently in the discussions at the seminar. David Foden, representative of the European Trade Union Confederation, set out the policy agenda which trade unions need to take up. Responding to strong criticisms of the role of the international financial institutions in the process of transition in Central and Eastern Europe, World Bank representative Mihály Kopányi challenged trade unions to present credible policy alternatives to address the serious problems which their countries face.

The final conclusions of the seminar identified priority areas for trade union action, stressing the need for them to make renewed efforts to strengthen their own capacities to organize workers and represent them effectively. The need to guarantee respect for fundamental workers’ rights and to combat corruption was underlined, and a series of proposals were adopted to strengthen national institutions and processes in the fields of social dialogue, collective bargaining, labour legislation and dispute settlement. Trade unions identified the need to tackle the international financial institutions, both at the national and international levels, as a key point in ensuring that social considerations guide the globalization process. They also have to influence the policy agenda surrounding EU accession to ensure that their concerns enjoy priority attention.

The seminar also emphasized that international trade union cooperation and solidarity is indispensable for meeting the challenges of globalization. The ILO's role is to support trade unions in all of the areas identified, and to build their capacities to promote social justice in the age of globalization.

We thank all those invited guest and speakers who participated in the discussions. But most of all we thank the trade unions for their participation, without which the event would not have been possible.

Oscar de Vries Reilingh
Director
International Labour Organization
Central and Eastern European Team

Foreword: Keynote address

Richard Falbr¹

Allow me to express my gratitude to the organizers of this event, because the subject under discussion is of utmost importance. Globalization has become one of the main factors that determine our way of life. In Central and Eastern Europe as elsewhere, we have experienced the impact of globalization, and we are well aware that we are less prepared for it than our colleagues from western countries are. Today, capital movements are not hindered by borders of countries or continents. World trade has started a process of removing existing barriers, and transnational corporations are in a position to relocate production facilities to other parts of the world. All this has been driven by a rapid expansion of information technologies, the pace of which was hardly imaginable for many of us only a few years ago.

The topic of this conference is globalization and trade unions. We all have to consider the impact of globalization, and assess whether it is a positive or negative development for trade unions and workers. On the one hand, we can see new opportunities and hope for improved general prosperity and living standards around the world. On the other hand, we cannot ignore the many serious risks involved, particularly the danger of deepening the gap between rich and poor, both within and among nations and continents. In addition, social systems painfully built up during recent decades are in danger, while internationally recognized rights of workers and trade unions are denied and have crumbled in many parts of the world.

These risks are very real. Following the recent Mexican crisis, we are now witnessing the impact of the Asian crisis. Brazil now faces similar problems, and entire regions and even continents are on the verge of recession. Only a few years ago, the Asian model of development was a popular success story. We were told that the social dimension should be subordinated to rapid economic development, and were reminded of the difficulties suffered by Western Europe with its broad systems of social protection. Now, the Asian crisis has brought massive unemployment and the collapse of employment security for all workers, coupled with fierce attacks on their rights. Last week, when attending the session of the ILO Governing Body, I heard the government representative of the Philippines say that the government intends to abolish collective bargaining within ten years. In his view, the stakes were as follows: either trade unions accept this inevitable trend and the economic situation will improve, or trade unions fight and both trade unions and jobs would disappear. Such a development is wholly unacceptable for us.

Similarly, the prolonged crisis in Russia, accompanied by the non-payment of wages and pensions on a massive scale, has caused a desperate situation for millions of people and compelled them to struggle for mere survival. Events in Russia have confirmed the view of Milton Friedman, with whom I met recently in Prague. According to him, the International Monetary Fund is a relic of the past, and should have been abolished at the beginning of the 1970s. Tomorrow, I will be meeting with IMF representatives, who until recently commended the transformation methods in the Czech Republic. I do not think much of their judgement.

It seems quite evident that the underlying cause of these recessions and crises is above all the liberalization of financial flows, promoted and supported by international financial institutions. This liberalization was imposed without desired and necessary rules and regulations, and proceeds outside the jurisdiction of national governments, which are prevented from exerting any influence. On many occasions, governments have entirely abandoned their responsibilities.

In this context, I have to mention that the Czech Republic also experienced a costly lesson with regard to unlimited liberalization. Due to theories on the free play of market forces that were imposed on our country and that were supposed to solve all our problems, we have instead witnessed the complete failure of the chosen methods of privatization, an economic collapse, and an upsurge in corruption, speculation and fraud. The full burden of these adverse developments has shifted onto the shoulders of our workers and the most vulnerable groups of the population.

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Although we have not yet felt the full impact of globalization in our country, we have already registered attempts to curb human and trade union rights, both by previous governments and by certain employers. I refer here to fundamental rights, such as the right to associate, to bargain collectively, to obtain information, to engage in consultations, and so on. I could refer to many examples in which trade union activities have been prohibited, employees intimidated, and similar actions and attitudes exercised by certain employers – including transnational corporations. I feel sure that my trade union colleagues from other countries of our region have had similar experiences.

Trade unions must firmly and unequivocally combat these attempts. The truism remains valid that what counts is unity and the ability to act. The belief that obliging attitudes might succeed is wholly mistaken. New trade unions in Central and Eastern Europe have succeeded in strengthening their position, but nevertheless face many problems.

It is true that many factors play an important role in counteracting attempts to unify the trade union movement. Trade union membership has declined, and the role and authority of trade unions in certain areas have partly diminished. Certain trade union officers tend to believe that they must always come to an understanding with their employers, even in situations where vital interests of their members are prejudiced. People then relinquish their membership in unions, and unity is lost. We have to admit that in this respect, we have not succeeded in strengthening trade union action – rather the opposite is true. On the verge of globalization, this is a clear warning.

The countries of Central and Eastern Europe are undergoing a complex process of economic transition. They make preparations for EU membership, and all this comes about within the context of globalization. I am not entirely sure that we are all aware of the consequences of this phenomenon for the future of trade unions. We have a certain amount of experience, both positive and negative, regarding the activities of transnational corporations, and we also have assembled experience in defending our trade union rights. However, I feel that the complex problems connected with globalization and its implications must be studied more thoroughly. There is no other alternative. Let us therefore consider what should be done in this respect by trade unions, and assess how successful we have been so far.

First and foremost, we have to be aware that the globalization of international capital must have a credible counterweight – if possible, a fully unified international trade union movement to promote the social dimension of globalization and to realize the introduction of rules and policies conducive to reducing the risks mentioned above to the greatest extent possible. In this context, we should not underestimate the importance of our internal trade union activities, which must be closely related to our international actions.

A certain degree of progress has already been achieved internationally. Trade union activities undertaken within the International Labour Organization and full use of its universal system of international labour standards and supervisory machinery have played and will play a key role in our actions.

This system has recently been strengthened by new standards on child labour, and particularly by the Declaration on Fundamental Principles and Rights of Workers adopted by the International Labour Conference in June 1998. This was achieved thanks to the long-term efforts of the Workers' Group of the ILO Governing Body, in spite of the overt disagreement of certain governments and employers. I emphasize this because after long efforts we have succeeded in embodying the obligations undertaken by the governments attending the 1995 UN Social Summit in Copenhagen into a specific, morally and politically binding document. I would like to stress that the last session of the Governing Body again demonstrated that the Workers' Group has become the driving force. Employers evidently feel bewildered, despite the fact that the expansion of transnational corporations has had a great detrimental impact on employers' activities in their respective countries. Government representatives tend to express views, but do not come up with any new proposals.

Let me express the conviction that if national governments put the conclusions embodied in the Declaration into concrete effect, this document will constitute a further important foundation for the defence of human and trade union rights, and will contribute to the promotion and respect of the social dimension in the process of globalization.

However, intensive promotion of the social dimension requires trade unions to exert constant pressure on governments, in order to make them discuss these issues in other international organizations and bodies as well. In the first place, closer collaboration has to be achieved between the International Labour Organization and the World Trade Organisation, as well as between their respective bodies. The problem of respect for fundamental labour standards in international trade is still an open question. It is necessary for this subject to become an item of negotiation in the new WTO round, and to be put on the agenda of the Third WTO Ministerial Meeting, planned for end of 1999.

In connection with transnational corporations, which play a major role in present trends of globalization, it is necessary to remind the participants at this meeting of the significance of the ILO Tripartite Declaration on Transnational Corporations. This is a very important document, and contains principles that these corporations should observe in their activities. The Governing Body makes regular assessments of the results achieved by the implementation of these principles. It is a matter for trade unionists and for the Workers' Group of the Governing Body to see to it that the Declaration is fully respected.

It is true that, on the occasion of the ILO Conference on the behaviour of transnational corporations that was held in Prague two years ago, trade union representatives from countries of Central and Eastern Europe did not report marked negative experiences. However, this does not mean that we are treated better than workers elsewhere.

The same applies to the OECD guidelines on transnational corporations. I would like to appreciate the efforts made by the TUAC to make this document an indivisible part of the Multilateral Agreement on Investment (MAI), which is now under discussion, and to embody a binding clause in the MAI concerning the full observance and respect of basic trade union rights and freedoms.

As far as the MAI itself is concerned, I would like to say that the proposed text is controversial, and must be the subject of further negotiations. Trade unions should be fully involved in this process, and should constantly assess the possible serious social impact of the Agreement. We have already approached our government and highlighted the risks involved in the MAI – or in a similar agreement – for the development of our economy. Unfortunately, our previous government was totally unaware of these risks, or grossly underestimated them. In our view, the MAI would become a final and decisive instrument for the few rich people who want to make unrestricted investment and trade transactions in all parts of the world, while pursuing only their own interests.

I would also like to appreciate that trade unions have succeeded in embodying the clause on observance of fundamental ILO Conventions into conclusions made by the important UN Committee on Sustainable Development. This is surely a further important step in the right direction.

I have referred to certain important international documents, which now represent a cornerstone on which the protection and promotion of the social dimension of globalization can be based. I do not propose considering them in detail, because further discussions on these subjects will follow during this seminar. However, we can conclude that these documents provide us with tools enabling us to exert pressure on our governments, which are called upon to implement the stated principles on the ground. Both national governments and international institutions should become more aware that without the social dimension, globalization will lead to social disasters in various parts of the world in a more or less distant future – for example, as we have now witnessed in Indonesia. It appears that even the international financial institutions have slowly understood these developments, and the slow and gradual change of their attitudes must surely be associated with the relentless efforts and pressure exerted by the ILO and the Workers' Group of the Governing Body.

It is clear that the process of globalization is inevitable. However, as it stands now, the entire process can be characterized as the globalization of power, not globalization for the benefit of all concerned. The main task of trade unions and of all workers' representatives is now to use all available tools and exert all efforts to ensure that the process is fully balanced, and that its potential benefits are evenly and equitably distributed. This will not be a simple task. Therefore, it is important to use every opportunity for obtaining and exchanging information and experience, improving coordination and strengthening joint action and solidarity. The present seminar provides an excellent opportunity for achieving this purpose.

I feel that in the past, we have all underestimated the potential of cooperation between our confederations, emphasizing only collaboration with western trade unions. However, experience has shown that, for example, wage trends in the countries of Central and Eastern Europe are similar, and that closer cooperation between our unions would be beneficial. Until recently, the Czech Republic was portrayed as an exemplary model, and its privatization methods continue to be recommended to others. This view is certainly very remote from the harsh reality, and Czech trade unions have rejected such assessments from the very beginning.

To conclude, I should like to thank the ILO multidisciplinary team in Budapest for the organization of this seminar. I would also like to express my gratitude to the ILO Bureau for Workers' Activities, and to Giuseppe Querenghi, who is in charge of the information technology and social dialogue project, for his excellent CD-ROM concerning the problems of globalization. This will surely be a great help to all trade union organizations, not only to those from our region. I wish full success to the seminar.

Report of seminar proceedings

Sunday, 22 November

1. Welcome and opening statements

- Moderator: Oscar de Vries Reilingh (Director, ILO-CEET)
- Guy Ryder (Director, ACTRAV)
- László Sándor (Acting President of the workers' side of Hungary's Interest Reconciliation Council)

Globalization is not a new phenomenon; it has been going on for at least three decades. However, the magnitude of globalization and the speed with which decisions and transactions are made has changed in recent years. While globalization has effects on countries in every region, the countries of Central and Eastern Europe (CEE countries) are in fact facing three parallel processes of change:

1. Globalization
2. Political and economic transition
3. European integration (particularly as related to EU accession).

These three processes all have their own logic, demands and enormous challenges, which are not always compatible. Central and Eastern Europe is at the centre of regional integration issues, even on a global scale. The changes here were arguably the catalyst for the current trend of globalization, and the decade of globalization has coincided with the decade of transition.

Despite the list above, globalization should not simply be regarded as one problem among many – it underpins *all* the challenges faced by trade unions today. Some regard globalization as a threat, and others as a solution. But there is no denying that it is a powerful force that must be considered in trade union actions. This seminar is meant to provide an overview and an approach to these problems, helping trade unions in their efforts to tackle them. Trade unions should share their experiences – not to place blame, but to analyse their common problems and work out solutions.

We must remember that there is nothing inevitable about globalization. It is the result of conscious policy decisions, and attempts to direct the process are positive. Trade unions may and must seek to change globalization itself. There are indeed signs of a new receptiveness to trade union proposals today. At the same time, trade unions must work within their given environment, which has a great impact. An important goal of this seminar will be to arrive at suggestions for trade unions to react to practical issues they are facing. There are many questions we can ask of ourselves. For example, how does globalization fare with regard to social justice? Does it have legitimacy? Do we have the means to control it? How does it impact on the international financial institutions?

The ILO has been active in creating a framework for regulation and supervision in the area of labour and social policies. The ILO's role results from its position at the heart of international debate on workers' rights. The Declaration on Fundamental Principles and Rights at Work, passed in June 1998, was a very significant event in this regard.

2. Panel discussion: Overview of the challenges generated for trade unions in Central and Eastern Europe by globalization

- Moderator: Oscar de Vries Reilingh (Director, ILO-CEET)
- Stephen Pursey (ICFTU)
- Krastyo Petkov (Bulgaria)
- Richard Falbr (ILO Governing Body)
- Dimitrina Dimitrova (ACTRAV)

The processes of globalization, EU integration, and transition are not always compatible. Globalization is a multidimensional process, and in addition to its economic impact, it has geopolitical, security and cultural aspects. Globalization has not occurred spontaneously, but rather as the result of deliberate policies. It is not a new phenomenon; the debate on interdependence has continued in much of the post-war period, and often defined in North-South terms. The proponents of globalization claim that it has universal benefits, but this response is ideological. Some countries have benefited more than others, and capital benefits more than labour. Some companies also have fewer possibilities to deal with the process of globalization – especially in CEE countries.

Globalization has had few effects in many CEE countries. It has been noticed most significantly in the activities of two types of organizations – the international financial institutions and multinational corporations. Governments have had no choice but to turn to the IMF and adopt structural adjustment programmes. But the policy packages implemented were not adjusted properly to the needs and circumstances of specific countries. While the effects of these programmes have been diverse, they have not led to growth everywhere. Instead, they have often endangered political stability. Governments have also sought FDI at any price, but FDI does not lead automatically to growth – especially without forward and backward linkages in the economy as a whole. Overall foreign investment has been low, except in Hungary. Agreements with the IMF and the World Bank have not resulted in the promised inflows of investment. Shock therapies, the transfer of institutions from other countries and attempts at social engineering have in most countries failed to bring about the promised growth and improvements in living standards.

Competition between CEE countries creates the conditions for a downward spiral. CEE countries compete for EU membership, which is seen as a guarantee of growth and integration into the world economy. However, the structural adjustment programmes called for by the IMF advocate low-wage policies, which are in contradiction with the logic of EU enlargement. The current EU member states fear “social dumping” and demand a rise in incomes and living standards to close the current gap. Restrictive wage policies present the danger of reinforcing the current regional disparities in incomes. Policies should therefore address both the national and supra-national levels.

Complex forces are undermining the role of the nation-state. Citizens in the region tend to have unrealistic expectations regarding the state’s role as provider, in a period of scarce government resources. Governments also face pressure to fulfil the structural adjustment programmes, which limit their autonomy. These forces have undermined political stability and led to a crisis of the state in region, as observed, for example, in low election turnouts. Privatization has also brought problems, especially corruption.

Workers need to discuss the role of governments in globalization, to see how they can influence distorting processes that undermine both the rule of law and prospects for economic recovery, as resources flee the country or are used for luxury consumption. Trade unions cannot maintain a neutral position on these issues.

Regarding the three tendencies mentioned above, we note that there is a tendency to use the terms *globalization* and *transition* very freely. What do these mean? *Globalization* has only come into currency recently. It includes liberalization (reductions in barriers and rules, etc.), technological change, and a political dimension. We should remember that trade unions, not capital, brought down the Berlin Wall. The specific occasion for the crucial Solidarnosc event in 1988 that triggered many of the changes was a discussion of ILO documents. Trade unions started these changes, and should not complain about them now. This region has *not* been passive, but the world has changed quickly, too – especially in financial markets. Trade unions should participate in the discussions of a “new architecture” that are occurring in various forums today.

The term *transition* is also important to examine more closely. Transition to what? And for how long? The IMF forecasts growth in the next two years in Central and Eastern Europe (excluding the former Soviet Union) that is more than twice as fast as in the developed world. If the region has faster growth than the rest of the world, does that mean the transition is over? Although this is a rhetorical question, it is an important one. The term *transition* has a psychological impact, and reinforces the prob-

lems facing the region. Can trade unions afford to think this way any more? We should give serious thought regarding *when* we will stop using this word.

Globalization in this part of the world has been an East-West process. The “hub” for the region has shifted from the former Soviet Union to the European Union. This is seen in trade figures, where the 11 countries of the euro account for the majority of exports from the region. A 1% growth in output in the euro region should translate directly into something like 0.5% growth in output in Central and Europe. In addition, the euro will replace the dollar as the main reserve currency, which will also have implications.

The countries here will be judged by European criteria, such as the Maastricht criteria for budget deficits and growth and the Copenhagen criteria for enlargement. The structural adjustment programmes imposed on countries of the region often push them towards a type of neo-liberal model more closely aligned with North America or Latin America than with Europe, and this should also be noted. Political stability depends on social dialogue, in which trade unions play an important role. European and international labour standards will also be dominant in the region, and therefore temporary, home and part-time work will probably continue to grow. Although these trends represent a type of deregulation in local terms, there is still regulation based on EU standards.

With the Asian crisis, the view of various regions is changing. Korea (with its strong unions) is beginning to emerge from the crisis, while Indonesia (where trade unions are repressed) is still in free fall. In Russia, however, the situation is different. Flawed policies have affected the budget and financial markets, and changes have been less far-reaching than in many other countries. There are no checks and balances on political power. Trade unions should play an important role in changing this, but they are rather forced to react to the critical issue of wage arrears.

Trade union structures should be a function of their purpose, and should include elements for both tripartite and bipartite activities. At the tripartite level, trade unions should influence political processes and national social policy.

Globalization and its problems call for counterbalancing action from trade unions. Changes that would represent a new direction include increased participation in union activities, supervisory activities (eg of pension funds), political activism and “open” unionism to include participation from the organizations of civil society.

Two common problems should be addressed by all unions in the region. First, 40 years of dictatorship has resulted in a situation where unionists at the shop-floor level still think problems will be solved from above. Second, there is a growing problem in collecting union dues from the shop-floor level. Trade unions in the region now want to be western-style unions, but they also seek to maintain the perks of the past, such as extensive recreational activities. As a result, the union dues collected often do not leave the shop-floor level. This puts national unions in a critical situation.

There are a number of questions trade unions should ask themselves in an effort to increase their effectiveness. Are local trade unions plugged into the international trade union networks within multinational companies? Is the media used effectively? How is the image of trade unions being improved? What impressions are made on foreigners – including the IMF, the World Bank and the European Union? The situation in the region does not seem very good in these respects. Eight years ago at the ICFTU conference in Vienna, unions expected to have more respect by now. They should start planning now for the future.

There will be two important events in international institutions in 1999 – the WTO general meeting in Washington in December, and the World Bank’s development of a social code, with a target date of spring 1999. The ILO Declaration should be a part of the latter code, but we have to fight for this. The Central and Eastern European region has been very quiet in the ILO, UN, WTO and other forums.

Monday, 23 November

4. Keynote address: The role of the ILO and the Tripartite Declaration of Fundamental Principles and Rights at Work and Its Follow-up

- Moderator: Lajos Héthy (Research Institute for Labour, Hungary)
- Kari Tapiola (Deputy Director-General, ILO)

Before the transition, we could foresee that transition was necessary, that there would be shocks along the way, that privatization and restructuring would have consequences, and that transition would be difficult for trade unions. Policy makers forgot about social policies, such as social security. Without attention to social policy, we end up in a situation like the one in Russia, a kind of half-way house between a planned and functioning market economy. In Russia, the non-payment of wages must be regarded as a joint economic and social failure.

We could not foresee in 1991 that privatization would have the political dimension that it later assumed. Nor could we foresee that the internationalization of production that began becoming strong in the 1970s and 1980s would develop to its present point, where economic activities are now conducted in real time across borders. The fall of the Berlin Wall gave new impetus to these trends. Communist systems were not compatible with transborder, real-time decision making and action. The nature of multinational corporations has also changed – they are no longer the octopuses of the past, with their head in the home country and their tentacles spread out across the world. As ABB says, they practice the “art of being local worldwide.”

With the end of the Cold War, a new global labour market started to emerge, in which all workers in the world directly compete with one another. Some argue that there are still barriers, but there are certainly fewer than ever before. For example, in today’s environment, Swissair can perform its ticketing in Bombay, in real time. And for the first time since World War I, there is no competing political-economic system internationally.

The competitive advantage of Central and Eastern Europe is closer to that of the developing world than it is to that of the developed world, but it is not in the region’s interests to align with the developing world (for example, in the WTO). This would damage its chances for accession to the European Union. This basic problem also poses a dilemma for the region’s trade unions. While western trade unions lecture about how to fight multinationals, the unions here want them to come in, because they bring investment and modernization, including modern models of industrial relations. Therefore, western and regional unions either talk past one another, or they cannot reconcile their diverging views on FDI.

After 1991, there was a strong regional focus in the international community, which lasted until about 1994. The ILO even thought that its future was in question. The ILO, after all, was established after World War I to offer a “democratic alternative” to communist revolution. Now that communism was gone, was the ILO still needed? In this period the ILO, too, sought regional solutions. Then we realized that global, not regional developments pose the real threats to employment. The root causes of the problems the ILO was created to deal with were still there – poverty, unemployment, social inequality. In fact, they had grown stronger. These are the reasons why we have core labour standards as a “minimum social agenda” for the entire world. The ILO’s goal was always to set a certain minimum, so that development would not occur at the expense of workers’ basic interests.

At the Copenhagen Social Summit, it was decided that there indeed is a “short list” of fundamental workers’ rights. These are:

1. Freedom of association
2. The right to collective bargaining
3. Equality
4. No forced or child labour

In 1995, the core labour standards were identified. In 1996, an OECD study on the subject used the ILO standards as a starting point. This was significant, because the OECD could have created and used its own standards, but it instead used the ILO standards. In December 1996 at the WTO, the Director General of the ILO was invited to speak, and then uninvited again – with the result that 80 speakers at the gathering mentioned the ILO. The ILO's mandate in the area of social standards was recognized by other organizations.

The current problem is that despite the new consensus on the agenda of fundamental workers' rights, there is no consensus on how to enforce them. The ILO cannot enforce these rights alone, and there is resistance to using the ILO Declaration in other organizations.

A supervisory mechanism is therefore necessary. The aim is not to point out where governments have or have not violated basic standards, but rather to assist them in improving the situation with regard to these fundamental rights. It should be possible to observe the situation regarding the core labour standards in each country, through a helpful mechanism. Nevertheless, many governments believe such a mechanism will turn into a semi-sanctioning mechanism, regardless of its stated purpose.

Regarding the role of trade unions – even if governments have ratified all seven core ILO Conventions, that is no guarantee of their full implementation. Trade unions can report in this regard to the supervisory mechanism. If the core Conventions are not ratified, the government will be asked to provide an annual report, on which trade unions may comment. The ILO has a full mandate to assist trade unions in identifying situations and bringing them to the ILO's attention.

5. Panel discussion: Governance of the global economy

- Moderator: Lajos Héthy (Research Institute for Labour, Hungary)
- Bob Kylvoh (ACTRAV)
- Mihály Kopányi (World Bank representative, SAPRI programme in Hungary)
- Károly Lóránt (SAPRI, Hungary)
- Krzysztof Hagemeyer (Social Security Specialist, ILO-CEET)

The deregulation of financial markets poses a particular problem for trade unions. Fund managers in financial centres such as Wall Street play a disproportionate role, and their panic selling can wipe out whole currencies or sectors within hours. In addition, the imposition of strict conditions by the international financial institutions can also lead to unjustified restrictions on national policy, and creates an atmosphere of destructive competition between countries, as they cut taxes and neglect their social standards and living conditions in order to attract investments that might otherwise be made in neighboring countries.

However, the dogma of the low-deficit, low-inflation school is now under attack. Western European governments are beginning to favour cooperative regional efforts, in which countries do not focus on competing with one another, but rather have orchestrated development policies to limit them playing of each other. Trade unions need to pay greater attention to these social and development policy issues.

The SAPRI programme (Structural Adjustment Participatory Review Initiative) involves the participation of national and international NGOs to review the long-term effects of the loans and structural adjustment programmes of the World Bank. Hungary is the only country from Central and Eastern Europe currently participating in SAPRI, although more countries may join the organization in the future. Although SAPRI's programme in Hungary does involve the participation of trade unions, it also involves actors from civil society, as well as women's and minority groups. A condition for SAPRI membership is the approval of the home government, and activities in Hungary are carried out with the support of the Prime Minister's office. SAPRI is financed by the governments of Norway, Sweden, Belgium and others.

In Hungary, high levels of debt servicing caused a solvency crisis, and the government turned to the World Bank for a Structural Adjustment Programme. This involves policy preconditions – such as liberalization, limited deficits, etc. Hungary could have asked for a part of its debts to be written off or forgiven, but the government decided against this option. Four aspects are examined by SAPRI: social reform, liberaliza-

tion, privatization, and the utility sector. While focus is often placed on the negative aspects, SAPRI acknowledges the benefits of the changes as well. For example, utility services such as telephone availability has improved greatly, which has very positive economic effects.

The World Bank is not in favour of globalization, it is rather in favour of development and sustainable growth. Globalization may in fact be proceeding too rapidly. But it is crucial to recognize that financial agents such as fund managers will behave as financial agents, and not as social institutions. It is not realistic to expect otherwise – rather, it is the job of governments to behave as governments, and to limit the negative consequences of purely market solutions when necessary.

In the area of social security, government intervention is necessary, as there are market failures and problems of economic efficiency. There is no market for unemployment insurance, for example. Purely market solutions are also problematic in areas such as health insurance. Social security increases overall economic efficiency by improving the quality of human capital and increasing productivity. Social functions, equity and social justice also increase social cohesion.

Social security is seen by some as hampering economic growth and competitiveness, but the Asian crisis shows us that economic growth cannot be sustained without minimum social protection. Most successful CEE countries are not those with the lowest levels of social expenditure, but rather those with the *highest* levels – e.g. Hungary, Poland and Slovenia.

Reforms in social security systems are generally decided upon together with the social partners. But there are strong pressures from the international financial institutions, experts, and foreign companies to scale down social security in Central and Eastern Europe. They say that this must be done to achieve higher growth and FDI levels, but in the long run it may actually hamper economic achievement.

Although the IMF and the World Bank recommend essentially the same policies everywhere, we see variety in implementation between various countries. For example, Hungary has implemented an obligatory private pension system, and Poland will do so next year. The objective is to take into account the ageing of societies, and scale back pension promises to avoid overcommitment by the state. However, small pension funds do not have enough power to play any real financial role. The business of pension funds involves large international investments and investment funds. While individual countries may have some range within which they can make decisions, the business of pension funds is more international than many first expect.

6. Panel discussion: Governance and the global economy

- Guy Ryder (Director, ACTRAV)
- Giuseppe Casale (Labour Law and Industrial Relations Specialist, ILO-CEET)
- Frank Hoffer (Workers' Activities Specialist, ILO Moscow)
- Peter Gajdoš (Head of the Economic Department, KOZ, Slovak Republic)

The impact of globalization has been adverse for trade unions. Even where trade union membership has not declined, the ability of capital to flee weakens the unions' position. At the same time, we are witnessing a decentralization of decision making. Collective bargaining is often occurring not at the national or industry level, but at the enterprise. Or, these decisions may even occur mainly at the level of the individual employment contract.

Despite the differences between the countries of the region, there are certain common trends and issues. Without mechanisms for social dialogue, for collective bargaining, for the settlement of labour disputes, and for exercising information and consultation rights, it will be difficult to deal with the problems of globalization. An institutional framework is necessary. At the same time, we must see that we use the opportunities offered by institutional arrangements.

Particularly with regard to information and consultation rights, trade unions should not see the creation of works councils as contrary to their interests, because the experience in Western Europe has been

exactly the opposite. The EU has extended information and consultation rights to cover multinational European enterprises in its Directive on European Works Councils. There is also a new draft Directive of 11 November 1998 on information and consultation at the national level, of which trade unions should be aware. This draft would allow for individual rights to be enforced through collective representation, linked with collective bargaining. It would also attempt to balance the need for security of employment with flexibility.

There is a pressing need to introduce social dialogue at the national and sectoral levels, because the EU is moving towards negotiations at the Europe-wide sectoral level. The ILO has therefore been urging trade unions in the region to concentrate activities at levels above the enterprise. To strengthen these areas, trade unions should urge the extension of collective agreements at the sectoral level, and seek to strengthen the rights of various types of workers under contract labour.

Russia presents a special problem. Nevertheless, the negative trends that have emerged in Russia are not unique to that country, and have been observed in all transition countries to some degree. It is the magnitude of Russia's problems compared with many other countries that sets the country apart. There is a danger that Russia will become globalization's greatest failure. The system of industrial relations in the former Soviet Union was one of the major reasons that it could not compete with and oppose the west. The decision of 17 August 1998 to devalue the ruble proved that the fundamental basis for a market economy is not present in the country. Russia has opened itself, but internal change has been less dramatic. Since Peter the Great, major changes in Russia have always been made on a top-down basis. A great failure was to think that this time, major changes could occur without the state. The result was the spreading of criminal activity on a previously unknown scale. Under these conditions, the owners and managers of enterprises behaved rationally – cheating and the stealing of assets were more profitable than production.

How does all this affect unions? In place of the former paternal state, there is now a "dictatorship of management", which uses its power to make personal profit. Unions are in a difficult situation, to say the least. There has been no improvement in management techniques, and limited human resource development. Factories still run in the command style. Even in the new service sector, there are strict controls on employees and overstaffing.

Making social dialogue more real – not only in Russia, but throughout the region – starts with the trade unions. Trade unions must earn trust, by developing dialogue with their own membership. The unions must be at the forefront of the fight against corruption, which is in some countries the most significant obstacle to collective agreements. They should also increase the transparency of their own organizations and operations. They must improve their level of competency in matters of economic and social policy, and come to the table with positive policy recommendations, not just criticisms of the existing situation. Trade union solidarity must be developed, which also requires the building of trust in the respective organizations. Finally, unions should show their strength, that they can take action to combat wrong policies and bad management decisions. International organizations can provide certain support in these efforts, in areas such as the transfer of information and know-how.

Where does the organization of workers appear in trade union programmes and agendas? How are unions trying to attract new members, young people, and expand into new sectors? The ILO is asking these questions everywhere in the world. Without answers, trade union influence and the unions themselves will decline. This is the main problem of trade unions everywhere, but the problem is even more acute in CEE countries, where the impulse to organize suffered from the fact that for years trade union membership was obligatory.

The real impact of trade unions is in direct proportion to their number of members, and the effectiveness with which they defend their members' interests. The image of unions must be enhanced. Cooperation with actors in civil society and NGOs can be of great benefit. And demonstrating what trade unions can achieve is essential. In the end, the strength of our arguments may not be as decisive as the arguments of our strength.

Tuesday, 24 November

7. Panel discussion: The implications of European economic integration and innovations in labour market policy from Western Europe

- Moderator: Eckhard Jaedtke (European Union)
- Roma Dovydeniene (Lithuanian Trade Union Unification and Spokesperson for the Lithuanian Social Democratic Party on European Integration and Industrial Relations)
- David Foden (ETUC)
- Werner Sengenberger (Director, ILO Employment and Training Department)

Globalization is seen as a great threat, and rightly so. But why is this? As the ETUC representative emphasized, European trade unions are not opposed to bringing developing countries into world markets, which is a necessary development. Rather they oppose the ideological push to do this without rules. Trade unions can help set rules for the process of globalization.

The globalization process has manifested itself most strongly thus far in Western Europe, and has involved a double process. First, the single market process within the EU resembles globalization, but it has gone farther and is soon to be reinforced with monetary union. Second, the EU has been undergoing political union as well, with the ability to regulate the integration process. Social and economic processes are seen as complementary. Monetary union will also be introduced in the EU in only a few weeks' time. Trade unions should welcome the introduction of the euro for three main reasons: (1) conventional economic reasons, such as the removal of transaction costs and elimination of exchange rate risks; (2) the need to manage the European economy as a single entity; and (3) a belief that by being part of the process, trade unions will be able to influence it. But, trade unions have opposed certain elements of monetary union, such as the independent central bank, the strict rules on public finance, the absence of a European-level budget, and the implications for wages and industrial relations.

There are increasing discussions on managing Europe as a single entity. This is necessary, because over 90% of EU output is consumed and invested within the EU itself. Even in large EU countries, over 25% of output is traded, but almost all of this is with other EU countries. Therefore social policies in one EU country spill over readily to the next, making coordination essential. Soon, there will be monetary policy at the European level, economic policies at the national level, while wage policies are set at a variety of levels. Without coordination, these are likely to clash, and in the event of a clash, the central bank is likely to win.

Trade unions in the EU cannot change the terms agreed at Maastricht – at the most, they could complain about the decisions reached there. They did, however, help ensure that employment policy provisions were included in the Treaty of Amsterdam. Employment is a common concern in Europe, but a common labour market policy is impossible since there are many labour markets. A draft of the European programme for employment, including its guidelines and action plans, is to be reviewed in Vienna in 1999 prior to its implementation. Review in Vienna will also include considerations of European-level employment policies.

There are four “pillars” to the European programme: employment, entrepreneurship, adaptability and equal opportunity. Active employment policy measures are an important part of the programme, as is social partnership. The overall goal is to increase total employment. Currently, 60% of persons in prime age are employed, compared with 74% in the US and Japan. The big questions for European-level employment policy include: What are the new elements in the programme? Are they backed up by budget commitments? And where do the employers fit in the process? There is very little bargaining at the European level as yet, although trade unions are interested in discussing matters at this level.

The development of European-level employment guidelines is not enough – macroeconomic policies also need to be coordinated at the EU level. This is especially true since with monetary union, productivity differences can no longer be smoothed out using exchange rates. This presents a great challenge for trade unions, as does cooperation across borders. Some unions are already cooperating at the European level, such as in the European Metalworkers' Federation.

The decision to admit CEE countries into the EU was made at the Copenhagen summit in 1993. Association agreements were concluded with many countries of the region, and these countries must approximate their legislation to EU requirements. The EU has defined economic and political conditions for membership. Membership will provide not only economic benefits, but also political ones – including the promotion of democracy and stability.

European integration is and has been a long process involving the improvement of inter-country cooperation. Some of the most significant setbacks to the process since it began with the Treaty of Rome have occurred in the 1990s. There have been two main challenges: (1) unemployment and underemployment, and (2) large economic disparities, such as in competitiveness and income levels. Unless these issues are addressed, EU objectives of social cohesion and consolidating democracy will not be implemented.

Approximately 17 million people are estimated to be unemployed in the EU. However, this figure does not represent the actual situation. To create full employment under the ILO definition, about 30 million new jobs would need to be created. There is a great deal of hidden unemployment, and a high number of persons who are unregistered because they believe they will not find jobs. There is also a gender gap, with a large number of unemployed women who would like to work. Jobs must be created in order to finance the social systems in EU countries. Some would say globalization is the cause of this underemployment. But this is open to doubt – only 8% of the trade of EU member states occurs with countries outside the EU. Some say that European workers are not mobile enough, or that labour markets are too rigid. But in 1986–1991, 10 million new jobs were created in the EU, a figure similar to the level of new job creation in the US. Therefore, other factors must be at work.

The poor job creation performance is mainly caused by the restrictive monetary policies pursued in Europe. The Bundesbank has been committed first and foremost to fighting inflation, and can ignore all other objectives. (The Federal Reserve in the US, meanwhile, seeks to fight inflation, but also to promote growth, involving a more delicate balancing of policy objectives.) Stability policies have changed somewhat in recent years, with the Treaty of Amsterdam giving employment a higher priority. The job summit in Luxembourg also emphasized this point.

Closing the economic gap between EU countries in the face of existing economic disparities is a second major challenge, as mentioned above. We must avoid threats to higher labour standards in some countries, while ensuring that weaker countries are not unfairly burdened with social standards they cannot afford to support. A gradual upgrading of standards is thus called for, with the situation of no country worsening, but improving in every country. The balance of economic and social objectives will be even more difficult after the introduction of the euro. Instruments of monetary policy will disappear, making it more difficult for wage and social policies to adjust to economic performance. Social policy, in its broad sense, may become a parameter of economic performance.

It is crucial to avoid a downward spiral of wages in this environment, and a policy choice must be made between *destructive* and *constructive* competition. In *destructive* competition, there are winners and losers – capital moves to those locations with the lowest wages and social standards. In *constructive* competition, everyone wins. Competition is based on the quality of products and services and on lead times, and emphasizes the joint development of physical and social infrastructure.

To attract investors, infrastructure is necessary, and this in turn requires a certain tax level. But taxes also drive away investors. The solution is for countries to agree jointly on tax levels, rather than play off each other. Minimum social standards are also required, and a cooperative system of industrial relations. There are two instruments that can be used to these ends: the European Social Charter, and the EU's social funds. Pan-European infrastructure projects are also often spoken of.

The fundamental labour standards as embodied in the ILO Declaration are also necessary for every country in the EU. Other terms may be set in collective agreements at the national and sub-national levels. This would allow wages to be set in accordance with productivity, for example. Some trade unions have said that such a system is not enough, that social dumping will still be a danger. For example, the European Metalworkers' Federation has called for European-level collective bargaining to agree on a set of policies for each country. This may also be an element of European industrial relations.

In the context of EU enlargement, the trade unions in the EU regard social policy as not negotiable. The trade unions in the candidate countries should be involved in how the necessary elements of social policy are implemented. There should be a European-level decision-making process on these issues. In this regard, the new Employment Report of the EU has a chapter on enlargement that trade unions in the region should read. Social dialogue and maintaining a focus on the social aspects of development are important conditions for EU accession. One problem in this area is a tendency for social partnership to be managed on a “top-down” basis, as observed in Lithuania and many other countries of the region.

In implementing reforms and restructuring, policies must be developed with a view to stimulating and maintaining employment. Unfavourable economic tendencies should be countered with policies designed to protect existing workplaces and develop new ones. The tax environment must also be favourable to workplace development, and there should be a balanced policy of attracting foreign firms while at the same time stimulating local enterprise development. The development of educational and vocational training systems is also an important ingredient to successful social and employment policy.

In increasing the links and cooperation with EU countries, some important points for action include mutual recognition of degrees, qualifications, etc.; review of labour law and rules on social protection for conformity with EU legislation; multilateral and bilateral agreements on social protection and mutual employment of citizens, between countries for whom migration is a significant issue; and cooperation with the European Commission’s Technical Assistance and Information Exchange (TAIEX) in the area of social protection legislation.

8. Concluding session

- Guy Ryder (Director, ACTRAV)
- Bob Kyloh (ACTRAV)
- Elizabeth Goodson (Workers’ Activities Specialist, ILO-CEET)
- Frank Hoffer (Workers’ Activities Specialist, ILO Moscow)
- Dimitrina Dimitrova (ACTRAV)

At the final session, the seminar’s conclusions were adopted, as presented at the beginning of this report. This was followed by a short demonstration of ACTRAV’s new CD-ROM on globalization, which will be published soon. The CD-ROM contains a wealth of reference material and statistical information on the phenomenon of globalization. Interested parties may request copies from ACTRAV or from their local ILO office.

Seminar conclusions

WHAT TRADE UNIONS SHOULD DO TO MEET THE CHALLENGE OF GLOBALIZATION, AND HOW THE ILO SHOULD HELP

1. Strengthening trade unions

- a. Making the organization of workers the number-one priority, by:
 - Establishing specific programmes and structures and allocating adequate resources to them
 - Targeting specific groups, such as: the private sector, small and medium-sized enterprises, services, white-collar workers, women and the young
 - Retaining membership in multinational corporations and privatized enterprises
 - Addressing the informal sector
- b. Developing collective bargaining capacities and techniques
- c. Servicing members' needs, by ensuring internal democracy, responsiveness to views of the membership and the capacity to act on them
- d. Ensuring optimal management and administration of trade unions in a highly professional manner, projecting the message and values of trade unions through innovative communications activities

2. Protecting and promoting basic workers' rights

- a. Being alert and assertive in ensuring respect for the fundamental workers' rights set out in the ILO Declaration on Fundamental Principles and Rights at Work and Its Follow-up
- b. Fighting corruption, and being exemplary in their own behaviour (it is only possible to protect workers' rights where the rule of law truly operates; corruption threatens the rule of law)

3. Strengthening national institutions and processes

- a. Promoting effective operation of the institutions of social dialogue, and high-quality trade union participation in these institutions (including mechanisms for enforcing the application of agreements)
- b. Developing mechanisms and procedures for collective bargaining at appropriate levels, notably at the industry level
- c. Implementing adequate procedures for the review and enforcement of labour legislation, in conformance with EU standards
- d. Ensuring the efficient operation of dispute settlement machinery, both mediation-conciliation and tribunals

4. Tackling the international financial institutions

- a. Seeking and using available opportunities at the national level to engage the international financial institutions in discussion on the design and implementation of their policy recommendations (requires careful preparation of credible alternative policy proposals)
- b. Joining with others in the international trade union movement in seeking an overall reorientation of the IMF and World Bank policy outlook, using the present moment of opportunity to engage in a major lobbying effort

5. Influencing the agenda on EU accession

Being active partners in setting national priorities within the agenda set by the EU on convergence, given the high national priority accorded to EU accession in many countries

6. Consolidating international trade union cooperation

Continuing the tradition of international trade union assistance and solidarity that has been a major feature of the developments over the past decade, since these aspects retain all their importance today:

- a. General exchange of information and experience
- b. Concerted cooperation in exerting pressure on multinational enterprises through organization of workers and collective bargaining
- c. Active involvement in international trade union campaigns, providing solidarity as well as receiving it

7. The role of the ILO

The ILO has responsibilities that cut across all of the above points. Its role is to support trade unions in all of these areas of endeavour, notably through the work of the Multidisciplinary Teams in the region. Since the ILO's resources are limited, it is obliged, like other organizations, to set priorities:

- a. Capacity-building in areas under heading 1 above
- b. Campaigns for application of standards, especially those of the Declaration on Fundamental Principles and Rights at Work and Its Follow-up

Annex 1

Globalization and the trade unions of Central and Eastern Europe

*Professor Krastyo Petkov
Bulgaria*

Introduction

In 1990, at the beginning of the transition, Ralph Darendorph foresaw that the process would be more prolonged than expected.¹ Nearly a decade later, it is clear that his prognosis was correct. At the end of the first decade of transition, we have learned an important lesson – that it is a more complex and multi-layered process than its architects and executives expected. It is complex because the transition economies have not managed to break from the trajectory of crisis development. It is multi-layered because the transformation from a planned to a market economy is not a linear process. The direction and the content of the transformation are directly interdependent with two other processes: European integration and globalization.

The global crisis and the new programme for expansion of the European Union obviously provide new meaning and importance to the trade union movement in Central and Eastern Europe. Trade unions have repeatedly analysed their own domestic, national strategies. Now, it is high time to discuss the changes in their environment – continental and global; social, financial and economic.

The purpose of this report is to suggest a conceptual and analytical framework for such a debate. Three interdependent aspects of change are examined: globalization, “Europeanization” and the transformation process itself. On this basis, the report explores options for new trade union strategies. Potential new labour partners during the second stage of transition are also commented upon.

I. Globalization: Beyond theory

The tendency of social and political thought to exaggerate contemporary trends is a well-known phenomenon. Globalization is a phenomenon about which theories, analyses and prognoses have been made over the past decade to a degree that appears excessive in comparison with the actual facts and changes in the world economy.

As always, the extreme views are most curious.

According to one extreme, which I would call the technocratic utopia, the world has already become a “global village”, in which the institutions, the market and the “elders” are determining a new order and model of behaviour. In this context, each separate country or region is incorporated – voluntarily or under pressure – through globalization into the new world order.

The other extreme is represented by the school of left-wing conservatism. According to this school, strong tendencies towards internationalization and a new geopolitical configuration are the result of American domination – or, even more curiously – from attempts to avoid or postpone the inevitable decline of the capitalist system.

The purpose of this report is to provide a look beyond abstract theorizing for its own sake. We are rather interested in the facts, the actors and trends. The empirical side of globalization will be examined in the context of a new wave of regional crises that have brought the world trade and finance system to the edge of a new, great depression.

As a starting point in discussing globalization, let us refer to the definition of Anthony Giddens:

Globalization is ordinarily understood as economic and, as its root suggests, involving connections that span the world.²

The leading authors representing the positivist concept of globalization – to whose ranks Giddens by no means belong – draw their ideas mainly from neo-liberal economic doctrine (dominant in the period 1980-1990) and from the expansion of the free market on a world scale. There are several reasons for this, as we will examine below.

1. Globalization of finance

Globalization has proven to be a real and active process primarily in the field of financial markets. As Giddens points out, the daily turnover of capital in currency transactions exceeds one trillion dollars.³ The global finance market works, in fact, on a 24-hour schedule. Institutional investors, amongst which private pension funds play a leading role, determine the most attractive destinations for capital, and it is in these locations that money aggregates. This huge resource not only fails to recognize borders, it also becomes estranged from its owners and primary depositors – thus assuming its own dynamic and autonomy of action. There are certain supra-national rules and standards; regulation, to the extent that it exists at all, is carried out by the international financial institutions.

Financial globalization is having specific effects on Central and Eastern Europe. The international financial institutions provide an intermediate link to world markets. Due to the underdeveloped state of local capital markets and the difficulties of reform, the influence of the sizeable flows of money in the region is less than that experienced, for example, in South and Southeast Asia or in Latin America. The international activity of domestic capital from the countries of Central and Eastern Europe is still in its initial stages.

2. Globalization of trade

Trade is also undergoing a process of globalization, under the influence of price liberalization and the withdrawal of customs barriers. This tendency is experienced most strongly in emerging markets, including those of Central and Eastern Europe. In part due to the significant degree of consumption that has developed in these economies, they have become an object of prime interest for the developed industrial countries. The liberalization of foreign trade is indeed one of the first conditions which countries with transition economies must meet before signing international agreements for debt regulation or for loans to support economic stabilization programmes.

When the former integrated market in the system of the Council for Mutual Economic Assistance collapsed, it was going through difficult stages of fragmentation, barter trade and reorientation towards new zones of bilateral exchange. Of special delicacy in this regard is the evolution of trade relations with the European Union, which has thus far applied a policy of expansion in Central and Eastern Europe, while allowing limited access of goods from this part of Europe. The attempts of Central and Eastern European countries to establish sub-regional markets, borderland free zones and liberalized cross-border exchange are still in their pilot stages. As a result, nearly all transition economies have problems with their trade balance and have not managed to accomplish a stable strategy for export-orientated production. Bulgaria is experiencing especially acute problems related to its foreign trade deficit, because its trade is suffering from external shocks, including the war in Yugoslavia and the deep financial crisis in Russia.

3. Globalization of production

The globalization of production, in terms of scale and speed, falls behind the internationalization of finance and trade in significance. This is not difficult to explain, as this portion of the national economy is most immobile, and depends on tradition, mobility of labour, availability of raw materials, infrastructure, and so on.

Specialists point out two leading tendencies: the expansion of multinational corporations and the invasion of information technologies. At the same time, there is a prevailing opinion that the development of these two aspects of globalization has not had a significant impact in post-socialist countries. Concerning this, Rod Martin writes:

*Trade liberalisation has created open economies, with expansion of exports and especially imports from western countries; this substantial process of internationalisation is based on the logic of exchange. However, there has been only a limited process of multi-nationalisation based on the logic of production. The region has not yet begun to experience the process of globalisation, based on the logic of innovation; there is little evidence of the application of the logic of innovation.*⁴

Martin provides data on foreign investment in Central and Eastern Europe, which remains relatively low when compared, for example, to investment flows in China. To illustrate, in the period 1990-1995 direct foreign investment in Central and Eastern Europe and the countries of the former Soviet Union accounted for approximately 15% of the total capital flows to developing and transition countries. At the same time, this rate is 13% in China, where \$1,640 trillion was invested.⁵

Investments in the region mainly find their application in information technologies –primarily in computerization, the Internet and telecommunications. Computerization has achieved significant penetration in the non-production and home spheres. Home PCs are used both for bringing children's education up to date and for data processing and communications. They are also related to the widespread practice of part-time work and distance work (or “telecommuting”).

Considering the subject of the present report, the investment and market strategies of multinational companies in Central and Eastern Europe should be given special attention. Multinational companies have thus far refrained from large investments in technological innovation in the industrial enterprises they have purchased in the region (amongst the exceptions are the innovations in the automobile industry). The new owners prefer to concentrate their efforts on achieving higher competitive ability by making improvements in areas such as labour organization, the management of human resources and marketing. It is obvious that for the time being they presume to use established strategic advantages, such as the low-cost and relatively highly skilled labour, traditional markets for the chemical and mining industries, etc.

What is the reason for the obvious restraint in investing in transition economies? In his interesting empirical study, Martin points out two groups of reasons. One is connected with the *peculiarities of the transition and the situation in the host countries*; the other has to do with the *international financial institutions*. Regarding the characteristics of host countries that can limit the investments of multinational companies, we can refer to political instability, inadequate legislation, and interference by the state, especially with regard to the tendency towards central control, bureaucracy and corruption. (We shall examine further details of these characteristics of transition countries later in this report.) The role of the international financial institutions must be discussed here, with an analysis of the general process of globalization and its impact on transition in Central and Eastern Europe.

In their empirical studies, Hirst and Thompson conclude that globalization theories are of limited relevance for understanding the modern development of Central and Eastern Europe.⁶ Regarding the behaviour of foreign investors, we have to agree with this conclusion. The authors are absolutely right that western capital has taken a tentative approach to the eastern region, although the degree of tentativeness varies between countries. For example, foreign financial and industrial engagements in Hungary are more significant than in Bulgaria, Macedonia or Albania. The inference is quite reasonable that wherever western capital is involved, the multinational companies are experiencing problems with the national governments.

But apart from the problematic connection between multinational strategy and local institutions, there is an additional limitation on expanding foreign investments in production and services: fiscal and monetary policy. Martin's conclusion that these policies place restraints on multinational companies seems at first sight to be disputable and contradictory.⁷ Unfortunately, his report does not develop this theme further, and he does not give more detailed justification for its support.

The countries of Central and Eastern Europe and those of the Commonwealth of Independent States do not have autonomous financial policies. They are determined by agreements with the international financial institutions, above all with the IMF. In certain countries with crisis economies, a direct financial and legislative monitoring may even be carried out by means of a currency board regime. Such crisis economies currently include Bulgaria and Albania, as well as Latvia and Estonia in the past, and most probably Russia in the future. National budgets are revised by missions of the IMF and modifications to tax, economic and social legislation are directed in the drafting stages by experts from this institution as well as from the World Bank. Decisions of national parliaments are actually approved beforehand, lest national governments risk breaking their international agreements. At the same time, this closed system is non-transparent with regard to its loan and debt situation. Decision making is also becoming informalized, along with local (national) lobbying. These were the main conditions necessary to include the international finance institutions as shadow partners.⁹

Critics of the monetary model of reform are numerous. Many leading economists, businessmen and politicians are seeking an explanation of the global crisis, and specifically of the utter failure in Russia of the imposed policy and monetary instruments of the IMF. Nevertheless, in official bulletins, analyses and agreements, international financial institutions are regarded as transformational and pivotal agencies, as are foreign investors and multinational companies. A commonly agreed-upon rule is, for example, that the existence of an agreement between the IMF and a certain country, along with regularly paid foreign debt servicing are positive and effective signals for a significant growth in investment. This is seen as one of the purposes of such agreements. However, as we have seen, there is no convincing evidence that this effect is being realized. There is little agreement concerning a second purpose often attributed to the international financial institutions – i.e. to shape the national market systems and to adapt them to global rules. The asymmetrical crises that touch Central and Eastern Europe are nearly enough in themselves to refute the success of this mission. Then remains a final purpose – to guarantee the payment of foreign debt and to avoid a new global debt crisis.

The global financial crisis, local crises in Bulgaria and Albania, the crisis in Russia and the ever-increasing difficulties in Romania are an indubitable evidence that: 1) globalization is not a myth but a reality (crises produce chain reactions, and the domino effect can spread these throughout entire regions); and 2) shocks in transition economies are not isolated from the world economy. The moratorium in Russia has affected a great many countries, and the breakdown of the Russian market magnified the recession in the countries of the region. The logical result of all this is the mass withdraw of the foreign investors from the region.

II. Europeanization: An alternative to the neo-liberal model

The transition from a planned to a market economy in Central and Eastern Europe is being accomplished under the influence of two parallel processes: globalization and European integration. The first imposes ready-made models and rules for adapting national economies to world markets, while the second involves an institutional and political model which must be implemented as a condition for accession to the European Union.

Globalization cannot be carried out by implementing statutory laws. There is no official or universal scheme for applying market foundations to former planned economies. However, the first decade of transition has elapsed under the hegemony of the neo-liberal doctrine and monetary policy, for example in the following points:

- Reforms in all countries of Central and Eastern Europe began with price and trade liberalisation.
- Nearly all countries resorted to “shock therapy” at a certain stage, as a method of radically removing the structures and mechanisms of a planned economy
- All countries are applying obligatory programmes for structural adjustment, with deindustrialization and the development of labour-intensive production and services as the result.
- The main instruments of social policy in all countries are “social nets”, with a compensatory character. Nearly all countries require programmes to reduce poverty, but do not have the necessary resources for this purpose.

European integration is a process based on negotiations, agreed-upon criteria and procedures of accession. The European Union works out its own strategy for enlargement, which provides for a successive series of defined steps and dialogue. First, the countries of Central and Eastern Europe enter into association agreements with the EU. Second, equal terms are established for the accession negotiations. Finally, actual negotiations take place, followed by accession to the EU in accordance with the country's stage of readiness, as determined according to criteria established at Copenhagen and at Maastricht (the latter conditions having been enlarged by the Amsterdam agreement).

These familiar and frequently discussed peculiarities of European integration draw attention to an *obvious contrast with the neo-liberal concept of globalization*. Globalization has no transparent programme or procedures; it involves an ever-increasing rivalry and competition to conquer and achieve strategic advantage. European integration, meanwhile, is a formalized and transparent process that makes it easier for national governments to work out medium- and long-term development strategies.

At first glance, there is no contradiction between the European trajectory of development and globalization. But the facts soon reveal otherwise. By following a neo-liberal trajectory, the countries of Central and Eastern Europe are bringing the model of their national economies, public utilities services and social spheres closer to the Anglo-Saxon (American) model.

Insurance rights depend on the payment of premiums, and this excludes a large number of people from the social security system. Opportunities for higher education are restricted by new taxes, and some universities have switched over to a paying system. Taxes and paid medical services are another market innovation which is resulting in the exclusion of persons and groups with low incomes.

The establishment of paid systems is explained with the argument that they reduce the costs of support for education, public health services and social relief, while stimulating higher quality of service. But one can actually notice an increase in levels of social exclusion and inequity at a rate previously unknown in modern civilization. A universal peculiarity of the social structure in these societies is the absence of a middle class – a phenomenon which is already being empirically demonstrated by sociologists.⁹ Instead of a middle class, which is typical in countries with a social market economy, a bipolar non-class division is being established between very wealthy and extremely poor people.

It seems that in Eastern Europe an item of ideology has somehow been imposed, and that with relative ease: that the welfare society has already passed away, in a post-industrial Europe. It seems that this is part of a larger attack on the European social model:

A large segment of European society has not remained passive in the face of a transatlantic ideological offensive against the welfare state and the social contract, which in the United States takes the form of an effort to dismantle the social conquests obtained since the New Deal of Franklin Roosevelt.

For the American Right, a continuous attack on the European welfare state was not just an ideological necessity, but a political necessity. A functioning European model of society would be a standing reproach to the advocates of social Darwinism in the United States.¹⁰

In fact, for the countries of Central and Eastern Europe, convergence with the Anglo-Saxon (American) economic model means a divergence from the European social and institutional model. Following neo-liberal traditions, Eastern Europeans have receded from Western European experience and the modern notions of social democracy. This postpones EU enlargement and most probably puts accession itself into question. Two heterogeneous systems can not integrate, because they will be in a state of dysfunction.

At the beginning of transition, it was accepted that the neo-liberal orientation of the former socialist countries was a temporary phenomenon. This orientation was inevitable because of the necessity for macroeconomic stabilization and market restructuring. Developed Europe saw its contribution to transition mainly in the form of helping establish new institutions, while it tacitly agreed to leave the formation of the Eastern European market systems to the responsibility of the international financial institutions.

Nearly a decade of experience in transition shows that this division of labour has not brought the expected results. Central and Eastern Europe has experienced failures in several of the schemes launched and in several instruments for the transformation of the former public system – failure of shock therapies, of institutional transformation, and of social engineering. We will now consider each of these in turn.

First, *shock therapy* will go down in the history of transition as a universal method for achieving financial stabilization.¹¹ This method was applied in practically every country, though not always at the beginning of reforms. The short-lived macroeconomic effects from drastic price increases, together with budget cuts and salary restrictions, resulted in decreasing inflation and a restoration of the balance of payments. But in Poland, shock therapy also gave rise to a stubborn recession and the cancellation of a significant part of its foreign debt.¹² The result of the first round of shock therapy in Bulgaria in 1991 bore similar results. Drawing experience from these catastrophes, the IMF suggested an even stricter remedy in the next Bulgarian crisis – a short-term shock therapy in the spring of 1997 followed by the immediate initiation of a currency board in the summer of the same year. Nevertheless, the Bulgarian economy slowly but surely entered upon a new phase of recession at the beginning of 1997 (and the forecast GDP growth of 4.5% will not be achieved).

Shock therapy proved to be a method of radical “treatment” without projected continuation. The argument that shock therapy shortens the time for treatment of ill economies and saves some of the price of painful restrictive measures proved to be an ideological bluff. In Bulgaria, Russia, Albania and Romania, financial crises (i.e. drastic falls in incomes) began in the policy vacuum after the shock, but before the beginning of restructuring. As part of an extreme policy with respect to the financial sector and money flows, *shock therapy is not compatible with the necessity for an evolutionary transformation of the real economy.* This raises questions of principle concerning its relevance under the conditions of economic transition.

Second, in the area of guided *institutional transformation*, the transference of models, samples, norms and standards from western to post-socialist societies is a chief method. This is carried out by introducing market elements through so-called leverages and linkages.¹³ (These instruments would in themselves be an interesting topic for a separate study.) Detailed acquaintance with this topic reveals that globalization is not an anonymous process; it is being carried out with the help of agencies and agents that exercise pressure and introduce modifications. Amongst these are the social partners, who are regarded as eventual subjects for incorporation into the common mechanisms of externally imposed control over the entire post-totalitarian transition.

Institutional transfer has displayed itself in a whole array of market and market-like constructions, designed both to assist in the self-regulation of post-socialist society and transition economies and to accelerate the adaptation to a market system. Such constructions include the modern banking and credit sectors, stock and commodities exchanges, unemployment and labour agencies, etc.

This method is considered to have been ineffective, even for such countries as the former East Germany, where transformation was carried out in the process of unification. Its main weakness is its *underestimation of the ability of generations to adapt and of the legacy of the past.* The problem of dealing with the legacy of the past has not been fully investigated by the theoreticians of transition, and seems also to have been underestimated by the leaders of transition. Another problem is that these institutions cannot begin to work before market changes are realized in the real sector.

We can anticipate that established institutions are constructions without content, and thus have no transforming effect. This is the result both of the absence of institutions, and the postponement of their introduction. In either case, an institutional vacuum is created, holding up reforms and contributing to crisis developments.

Third, going back to the beginning of the transition, we can say that the task of *social engineering* was not perceived as especially difficult. The condition for its fulfilment was the removal of totalitarian regimes, and this was accomplished with the fall of the Berlin Wall and the revolutions that then swept the entire region. Then came a stage of romanticism, of discussions on which of the existing western models was to be preferred. Finally, the countries of Central and Eastern Europe clearly understood the truth: that they were faced with a long – probably a quarter-century-long – path of reform, upon which no country had stepped before.

It is a paradox that the theory of social engineering was applied exactly in this final phase, and that it is imagined that social changes can be set in the form of a project and guided externally. The neo-liberal model involves the free market, institutional transfer, external guidance in settling foreign debt, monitoring the activities of governments and legislative authorities – all of these are part of a larger construction. But this construction could not withstand the burden of reforms, as seen in the permanent economic decline, cyclical crisis, and tacitly postponed terms of accession to the European Union, even for the countries of the Visegrád Four.

Europe itself is faced with a serious choice concerning the realization of its integration strategy and eventual EU enlargement. First, a new choice has been made to postpone the accession of the first and second groups of countries of Central and Eastern Europe as long as possible. This postponement must be used to change the strategy of reforms and to achieve fulfilment of the Copenhagen criteria, amongst which are living standards and competitiveness. Second, Europe has already made a new political choice, with its new wave of social democracy. The new social democracy became possible only as an alternative to the neo-liberal Anglo-Saxon model – an alternative which has also become known as the “third way”. Comparing the new social democracy to its older counterpart, as well as to the conservative doctrine, Giddens outlines its elements as follows:

- Equality
- Protection of the vulnerable
- Freedom as autonomy
- No rights without responsibilities
- No authority without democracy
- Cosmopolitan pluralism
- Philosophical conservatism.¹⁴

The “third way” is not a denial of the social and democratic values of postwar Europe. It provides a new definition of these values and seeks new, modern institutional decisions according to which individuals and groups may enjoy greater autonomy, while at the same time taking greater responsibility for their fate.

In the presence of this radical turn, countries with transition economies can hardly preserve their firm neo-liberal orientation. What is more, monetary policies (and especially the intermediary international financial institutions) are facing ever-growing criticism and pressure for change due to the global financial crisis.

III. The transformation: From recession to crisis

The Hungarian scholar János Kornai pointed out relatively early on that the transition economies, which suffered continuous breakdowns even in the age of state socialism, were walking straight into another trap in the transitional period. This is the so-called *transformation crisis*:

All the postsocialist countries without exception are suffering from a grave economic recession... The course of the recession is conspicuously similar in every case, even though these are countries whose starting points and specific circumstances differ substantially... Since the phenomenon differs substantially from the cases discussed hitherto in the theories of economic fluctuation, there is justification for giving it a separate name. To distinguish it from them, I have called it transformation recession.¹⁵

If Kornai is right, the recession inevitably affects all transition economies, and it is brought about by the transformation process itself. A question therefore arises as to the possible alternatives, i.e. non-crisis development (to a stable upswing and economic growth) or perhaps an even deeper crisis. Kornai himself comes very close to answering this question. Having made a study of the reasons for the transformation recession, he points out that one of the reasons was the removal of coordination. This refers to the fact that the elimination of central planning was not followed by the immediate imposition of self-regulating market mechanisms, and thus it created a vacuum in which the influence of the old actors, norms and networks was preserved. These elements inserted themselves into the new bureaucratic system, and restrained the possibilities for the free behaviour of economic agents under market conditions. The former republics of the Soviet Union, Bulgaria and Albania are often cited as examples of countries in which this occurred.¹⁶

In 1996–1997, both Albania and Bulgaria entered into an acute structural crisis, provoked by the finance system. In Albania, the crisis was caused by the catastrophe of financial pyramid schemes, and in Bulgaria by a liquidity crisis in banks followed by a string of bankruptcies. In the long run, there were substantial losses of deposits, savings and working capital, and both countries were caught in a spiral of hyperinflation. In Bulgaria, this was overcome by means of new restrictions on incomes and budgetary expenditures, along with additional foreign loans. The Bulgarian parliament accepted the imposed extreme measure for implementing financial discipline – a currency board.

The Russian crisis also began in the financial sector. The signal was a moratorium on foreign debt payments, followed by the devaluation of the rouble. The subsequent scenario was similar to that in Albania and Bulgaria, which is evidence that the Russian crisis was of a deeper, structural type.

The crises in Bulgaria and Albania were the subject of special analysis in the annual publication of the Economic Commission for Europe in 1996–1997. In this publication, we come across a conclusion of key importance for the estimation of regional processes in their global context: “Because the Bulgarian and Albanian crises were so extreme – and especially the latter, in its consequences – there is a natural temptation to set them aside as special cases. But most of the basic elements of these crises are present in one form or another in all the transition economies and especially in some of the other countries in south-eastern Europe – the successor states to the former SFR of Yugoslavia (except Slovenia) and Romania – as well as most of the CIS.”¹⁷

Is the main conclusion true – namely that Bulgaria and Albania are not to be set aside as special cases? Without any doubt, the answer is yes. This is being proven by the latest crisis in Russia and the difficulties experienced recently in Romania. We are to accept as logical the explanation provided as to why the structural crisis did not affect countries such as Hungary and the Czech Republic, in spite of the financial difficulties they suffered in the period 1995–1997. According to the authors of the cited survey, this was due to a higher stage of institutional development in the countries of Central Europe, especially in the CEFTA member states. Institutional progress makes the risk of failure considerably lower in comparison with that in the countries of South-eastern Europe.

If the level of institutional development is the only criterion determining crisis or non-crisis development, we are to accept that the former socialist countries may be divided into two sub-regions: Central Europe, and South-eastern Europe plus the CIS. There are also two speeds of transformation, and therefore these sub-regions are in two separate phases. Central Europe is in the phase of second-generation transformation, while Eastern and South-eastern Europe is still working on the tasks of the first generation, including macroeconomic stabilization and breaking the cycle of recession and crisis.

It seems unnecessary to jump to the conclusion that the above-mentioned division is final. It is true that the countries of the formerly united socialist block have taken different paths to a society of pluralism and market economy, and that they are attempting to implement different political systems and schemes for the redistribution of property. But in the period of transition they have also preserved the elements and peculiarities arising from their common historical circumstances. They have a common legacy, common global partners, and a common (European) destination. The region of Central and Eastern Europe will be treated more often as a single transitional area than as a differentiated and structured community. In other words, *the differences between the countries with transition economies will continue to be less significant than the differences between them and the developed post-industrial states*. This is especially true regarding the cultural division of East and West.¹⁸ There is serious internal and external evidence in support of this view.

First, in the sphere of *income inequality*, the dispersion between the countries of the region is obvious, but the maximum differences are in the range of 1:8 to 1:10. Income differentials between the countries of Eastern and Western Europe are as a whole more significant. The annual reports of the World Bank indicate that the gap between rich and poor countries will increase from the present 1:60 to 1:70 in 2010.¹⁹ The restrictive incomes policies applied as a main instrument to combat inflation in transition economies reinforce this tendency. In this light, the prognosis that the countries of Central and Eastern Europe will approach the EU in terms of their standard of living after 2020 seems too optimistic.

Second, in the system of *ownership rights*, the countries of Central and Eastern Europe implemented the transformation of state ownership relatively quickly, both in qualitative and legal terms. Bulgaria, where the state formally continues to possess over 50% of the enterprises, is perhaps the only exception. However, the structural transformation of ownership has not been finished yet. Former state enterprises are often either in a less than clear corporate ownership structure, or shares are dispersed among too many small shareholders. The existence of owners but lack of investment in the privatized sector is a symptomatic feature of primary privatization.²⁰ The countries of former state socialism are suffering from an abundance of capital possession combined with a shortage of investment capital. Thus the contradictory task of a transition to capitalism without capital has been often carried out – a paradox for which there has yet been no adequate solution.

Third, in the sphere of management, a common *tendency to neo-centralism* has been observed since the very beginning of transition. Neo-centralism can be explained to some extent as a result of the old habits dating from the times of the administrative-command system. The “neo” prefix is applied not only because it refers to a new management generation in the economy and state administration. *The neo-centralism of the 1990s is the result of the state regaining its position in the management of the country – but this time in the management of transition.* Since the transition model is dictated from the outside and applied in a top-down fashion, management and intermediate national agency are needed. The state system and its apparatus are available instruments that began to be actively used by the international financial institutions after 1992, when the romantic period of transition came to an end. Nearly all significant decisions – from foreign debt settlement to humanitarian aid from PHARE – are made with and by the state administration. Or, to be more exact, with and by the government administration. Therefore, this phenomenon may be rightly called *neo-governmentalism*, which is a more precise term than neo-centralism.

Fourth, the national economies of Central and Eastern Europe differ in their potential and performance, but they have one element in common: the *non-formal sector*. They inherited this sector – more or less developed, legitimate or forbidden – from the times of so-called developed socialism. In Hungary, for example, as early as in the 1980s people could manage to spend over 30% of their time in additional, non-state work. Nowadays, the non-formal sector is nearly equal to the formal sector in terms of quantity and turnover. Some specialists believe that the non-formal sector acts as a counterweight to the effects of continuous fluctuations in the official economy and finance system. Moreover, it represents reserve output to relieve the social pressure of increasing unregistered unemployment.

Taken together, these tendencies call for a revised view of the present model and strategies of transition. In fact, these questions are already being discussed in the field and in political forums. The second book of the Group for the Economic Program of the European Forum for Democratization and Solidarity, entitled “Not Just Another Accession: The Political Economy of the EU Enlargement to the East” pleads for an orientation towards the new social market economy. According to the authors, the elements of this economy are as follows:

1. Social interests are to be integrated in within overall policy. They are not a kind of appendix, neither are they a curb to growth. Their main purpose is to enhance the potential of all people.
2. Social policy without macroeconomic stabilization is practically impossible. Inflation will affect and punish the poor rather than the rich.
3. State finances should be healthy, to permit a free choice of the rightful level and structure of taxes. Public responsibility cannot be carried out without the possibility for the effective and open collection of taxes.
4. Systems of social security, including pensions, should be affordable and adaptable. They should secure services for all people instead of simply establishing a social net at a low level. They are to be founded on the principles of social and individual responsibility for all citizens. They should also stimulate labour and prevent any possibility of misuse. All social systems are to lie on the principle that prevention is better than treatment.
5. Continuous interest in institutional developments is of great importance – regardless of whether this refers to an effective state administration, to the independent and correct regulation of firms, to modern systems of collective agreements, to effective local authorities, or to well-financed and stable pension funds. An effective market economy is characterized by a large number of institutions that must be established (if they do not yet exist), and which should be flexible so that they may adapt themselves to an ever-changing environment.

6. Health, education and child rearing are the most important elements of investments in future.
7. Gender equality as well as the rights of and concern for women are to be a permanent topic in a areas of policy. Social policy is a significant instrument for decreasing pressure on women. Aspects of the post-communist transition that affect women should be met on a political level, even in the first instance. The rights and expression of women and the changed nature of men's role are revolutionary transformations which are accompanied by difficulties, but which are very substantial for the realization of the human potential.
8. New systems of public health services must be mainly in public hands. When a new social class possessing resources to pay for better service is formed, it will accept as natural a national system formed on a private basis. Although the private sector plays a certain role in this process, there are inevitable factors of economic efficiency that favour the reform (rather than dismantling) of the existing, essentially state-run systems of public health services.
9. The same is true of education – the most important reform in the educational sphere primarily concerns with the quality rather than quantity. Quality of education as measured by the learning of facts was good in Eastern Europe. But quality as measured by the ability to apply learned facts to new situations is considerably higher in Western Europe.
10. A healthy way of life, natural environment and working conditions – all of these mean less expenditure on public health services. Gains will be measured by the end results. In some countries, transformation was accompanied by a worsening of health status and a demographic crisis. After 1991 the death rate in Russia increased abruptly, peaking in 1993–1994. For the CIS as a whole, there were probably more than two million deaths above average in the period 1990–1995. Many of these deaths can be traced to the abuse of alcohol. Thus, an unhealthy way of life is a burden for individuals, families and society. One must not underestimate the economic significance of preventive actions, even when there is a shortage of financial means.
11. The most important point is that not a single social policy can compensate for the loss of work. The best social policy is an economic policy that supports employment under conditions of an increasing quantity of labour.²¹

Returning to our original theme, we should underline one more common factor in the economic development of the former socialist countries. This is the global financial crisis that began in South and Southeast Asia, and then later spread to Russia and made its way to Latin America. The first consequence of the crisis in Central and Eastern Europe was the financial inadequacy of the IMF. The Fund did not manage to provide sufficient means for the financial support of new agreements with Russia and Bulgaria. The second consequence affected the region as a whole – namely the crash of the financial and banking sectors in Russia. This brought about the mass withdrawal of established (and withholding of the new) strategic investors. From developed Europe, new signals of a third consequence have begun to be felt – the project and terms of accession of new EU member states will probably be reconsidered.

IV. Trade unions: Marginal players or strategic actors?

There is no doubt that labour and representative trade unions are experiencing the influence of three processes simultaneously: globalization, European integration and transformation. These processes are interconnected, but the development directions in which they are pushing the national states do not always coincide. This makes it difficult to work out a common trade union strategy and to coordinate activities with the other social partners.

It is clear that at the end of the first decade of transition, the trade unions in Central and Eastern Europe are drawing new meaning from recent experience in the context of the new situation in the region, Europe and the world. The 1990s have witnessed the deepest change in this century in terms of the labour-capital relation. Competition between these factors determined social dynamics during the capitalist industrial and post-industrial period. In the era of globalization, this relation is being transformed – the configuration of competing countries is already horizontal, i.e. capital-capital.²² This highly intensifies competition, even leading to over-competition in the international economic space. Some opinions hold that over-competition is precisely one of the main reasons for the South-east Asian crisis.²³

Governments, international institutions and supra-national financial players are already making their analyses and estimations. One of the most authoritative critics of the consequences of globalization is an advocate of the new social democracy. Not long ago, Philippe Gonzalez declared that “casino capitalism” is not the ideal of European social democracy; he appealed for coordinated efforts to discover and limit the causes of asymmetrical crises in a timely fashion. Henry Kissinger also openly blamed the IMF for the world crisis and regional cataclysms. And in his new book, George Soros pleads for reform in the international financial institutions. The list continues.

For a long time now, and nearly all over the world, organized labour has been practically in retreat.²⁴ On the one hand, this is because capital appeared to be more mobile and flexible. It thus managed to restrain and later to change the type of the pressure it could wield over hired labour. On the other hand, the retreat of labour can be attributed to the lessened scope of trade union influence as a result of privatization, structural adjustments and growing unemployment. Recipes for stopping the retreat have included recommendations for better adaptability and for anticipatory, proactive actions. It seems that these recommendations are not sufficiently helpful in emerging from the unions’ strategically disadvantaged position.

The decision to engage in trade union activities in the service sector is useful, but it has limited mobilizing and strategic effect.²⁵ It seems that the brightest perspectives are provided by those conceptions that attempt to give new meaning to the strategic role and identity of trade unions. (See, for example, the works of Hyman,²⁶ Leisink, Leemput and Vilrocx,²⁷ and Kester and Pinaud.²⁸) According to these authors, in our constantly changing world the question concerning the nature of trade unions (“who are we?”) is more important than the question of function (“what do we do?”). Especially radical in this respect is the brief but intellectually powerful publication of Kusnet and Taylor, *Economic growth and social justice in the global economy: Political challenges, political choice*.²⁹

Global questions require global answers. This is true not only of western trade unions, but also for organized labour in Central and Eastern Europe, where change is more dynamic, the number of key actors is large, and the periods of conflicts are more continuous in comparison with those found in a less turbulent stage of development.³⁰

The beginning of transition, the strategic choice was between the old trade unions that played the role of transmission belt between the party-state and the working masses, and the new “alternative” trade unions. Then came problems of perception regarding the authenticity of trade unions as representative organizations to protect the interests of hired labour. For this purpose, tripartite systems and mechanisms of negotiation were established on all levels of the industrial system. In the period of reforms, the Eastern trade unions faced the extremely difficult task of playing a balancing role, by supporting macroeconomic stabilization and restructuring (which were declared to be without alternative) while at the same time exercising pressure for a just division of the social burdens of transition. This development gradually pulled the trade unions out from the strategic field, and exposed them to the danger of marginalization in terms of their organizational influence and collective agreements.

After 1995, the level of unionization in most countries of Central and Eastern Europe fell in comparison to that in western countries. The core of trade union membership came from state-owned (or mixed ownership) industries, and new structural adaptations generally meant the loss of new members. At the same time, trade union influence is limited in the private sector; this has been demonstrated in comparative studies on collective agreements.³¹ Regarding the powerful non-formal sector, trade unions are finding it practically impossible to apply pressure.

Negotiations are held in the framework of tripartite or bilateral structures, under the umbrella of tripartism. From the very beginning, the role of tripartite bodies in decision making has been in the form of non-binding consultations between the social partners. An obvious paradox has emerged: *the strongly developed industrial network for negotiations lost its authority and was pushed aside to the periphery*.

Is it possible to avoid marginalization and the other aspects of the crisis in the trade union movement in Central and Eastern Europe – for example through a new revival of negotiating activity accompanied by a revival of labour and payment conflicts? Trade unions should not underestimate this side of their activity, especially at the industry and enterprise levels. But this will not lead to their strategic advantage.

With the risk of entering into a sharp debate and delicate problem, I will state my view that the way to transform the trade unions from marginal players (the role pushed on them by neo-liberal reforms and neo-centralism) into strategic actors is to lead them *out of the traditional territory of industrial relations*. This has also been demonstrated by the experience of a number of trade unions in Central and Eastern Europe, which are now attempting to emerge from the trap of imposed reforms and unilateral global pressures. I will attempt below to provide an outline of the structure and definition of proposed changes, with the stipulation that detailed information about each national situation is required for a more detailed analysis.

When we speak of new trade union developments with potential strategic effects, we are referring to their activities in four main spheres of post-socialist society: economics and finance; social institutions and social security; policy; and the third sector.

1. From partnership to participatory unionism

“Trade unions are out of their element in matters of economics and finance” – this conventional view was dominant at the beginning of the transition. Accepting the contrary would have meant mixing the roles of labour and capital, of employers and workers’ representatives.

A wide-ranging study by the ILO-CEET in Budapest has shown that the participation of employees turned out to be a main feature of privatization in most countries of Central and Eastern Europe.³² Seldom was this achieved through the self-organization of workers. A number of trade union centres were active throughout the privatization process, in areas such as:

- Legislative initiation (Poland, Bulgaria)
- Establishment of funds (Russia, Bulgaria)
- Launching of ESOP projects and worker-management transactions (Hungary, Romania, Poland, Bulgaria)
- Co-establishment of privatization funds (Bulgaria; these were later transformed into investment funds and holding bodies)
- Consulting activities in privatization projects and transactions (in almost all countries).

A publication of the organization MOT describes a number of cases in which those persons engaged in the activities of the firms participated financially as well, through the purchasing of shares, profit sharing, etc.

As capital is opened to external participation, trade union structures should not refrain from such activities. Their direct involvement through specialized and transparent groups (together with the employees and as representatives of labour) leads to a new conceptualization of their character and functions. With such participation, they become more than simply representatives of hired labour, and more than just a party to the new union between labour and capital – they take part in the bilateral exchange between these two forces. There is no logic suggesting that capital should invest in the human factor, or that this factor should not invest in the production and services of its industry.

2. From negotiations to supervisory unionism

By tradition, trade unions negotiate regarding social conditions and remuneration for hired labour. However, since the beginning of their development they have also created additional schemes of mutual insurance and assistance. In some countries – for example, in Israel – trade unions created and now control funds, performing certain functions designated by the state. In quite a different variant, this practice can also be seen in some countries of Western Europe.

Hungary was the first country in Central and Eastern Europe to separate pension from public health insurance, and put them under the guidance of the social partners. That these funds subsequently went into deficit hardly means that the decision was wrong in principle. Later on, other countries (including Bulgaria) separated social funds from the central budget. It is curious that in Bulgaria, the permanent deficit of the pension fund was overcome in this way.

The trade unions participated in a new development, referred to as the second and third pillars of social security. With their help, additional funds – both compulsory and voluntary – have been created in Poland, Romania, Bulgaria, Russia and other countries. Frequently, this is done on the basis of direct partnership with local and foreign finance and industrial capital.

In this sphere, the trade unions are partners of both capital and the state, but mainly in a supervisory capacity. While privatization involved participation in the distribution of ownership, here trade union activities concern the accumulation and disposition of resources from employees and employers.

3. From depolitization to politically active unionism

The question of the depolitization of trade unions arose as an antithesis to their former “extreme” interference in pure policy, which led to a neglecting of their actual work in the field of industrial relations and negotiations with the other social partners. The accusation that they “digressed” from their “pure” role came mostly from the side of the political elite, which obviously feared the popularity and influence of the trade union movement. The trade unions were subjected to external pressure to limit themselves to the traditional field of industrial relations and to place their social partnership on an institutional basis, which was accomplished through tripartite institutions and reforms in labour and social legislature. The international financial institutions also exercised pressure, through national governments, to limit so-called monopoly and dualism in trade union policy.³³

In the second half of the 1990s, a number of national trade unions in the region have returned to the policy scene, in new roles. Some have open partnerships with party organizations, some have created their own political derivations, and others act as a social basis or intellectual centre. Such secondary politization can be observed in Poland, the Czech Republic, Bulgaria, Romania, Russia, and other countries.

This unexpected evolution inevitably encounters criticism and counteraction, but they are justifiable reasons of both an external and internal character. Trade unions and their members were permanent participants in the reforms of the first decade of the post-totalitarian transition, representing the side of the “losers” and their dependants. The trade union centres gained experience in negotiation and interest protection, but they also observed the damage done to national economies by extreme monetary policy. In countries with recurrent crises, they encounter another trap as well – having to work under conditions of the extraordinary finance policies of a currency board or repeated shock therapy. Repeating negative conditions, pressure from their membership and growing disappointment are internal reasons for trade unions to revive their political activities. Such activities are a logical consequence of the reforms, and represent an attempt to establish a further channel of political representation for the losers of transition and their dependants – this time through the trade unions.

Nowadays there is a global tendency towards pressure on traditional parties from the side of civil movements and organizations. As Giddens states, these so-called challenger parties are forcing the traditional parties to change, and to borrow valuable elements from civil organizations, including their priorities and forms of action.³⁴ The trade unions have the potential for such action and a tradition of interest representation, which does not always have to pass through the long and congested corridors of power.

4. From industrial to open unionism

Western trade unions have rich experience in partnership with organizations and movements from the third sector, such as women, ethnic groups, etc. The problem of the post-socialist states is that civil society is underdeveloped. The strengthening of state and public authorities, the mass manifestation of authoritarianism, and lack of legal order all serve to constrain civil initiatives. Citizens become active in crisis periods and then absent themselves from the public scene in times of calm – this is a universal feature of post-totalitarian society.

Hence at this stage we should not speak simply of opening trade unions to the third sector, but rather of their participation in forming this sector. Alliances between trade unions and civil organizations may be

especially useful in mobilizing support for the realization of the interests of wider groups, such as pensioners, minority groups, and so on. Another form of action in this area would be the opening of trade unions to the third sector for associated individual or group membership. This would provide an answer to the dilemma of enlarging the public influence of trade unions under conditions of decreased membership. These tendencies, along with the changes in the classical industrial model, bring new questions of strategic agreements between Eastern and Western European trade unions with their national partners – the state, employers and citizens. The subject of such agreements would have to be the price of transition in its second decade. Trade unions need to modify their role, not to be a balancing body or buffer, but to be a national core on a regional scale.

Notes

- 1 R. Dahrendorf, *Reflections on the Revolution in Europe*. (London, Chatto & Windus, 1990), p. 99.
- 2 Anthony Giddens, *The Third Way: The Renewal of Social Democracy*. (UK, Polity Press, 1998), p. 29.
- 3 Ibid., p. 30.
- 4 Martin Roderick, *Europe-Asia Studies, Central and Eastern Europe and the International Economy: The Limits to Globalisation*. (University of Glasgow, 1998), p. 10.
- 5 Ibid., p. 11.
- 6 Ibid., p. 8.
- 7 Ibid.
- 8 J. E. M. Thirkell, K. Petkov and S. A. Vickerstaff, *The Transformation of Labour Relations: Restructuring and Privatization in Eastern Europe and Russia*. (New York, Oxford University Press, 1998), pp. 42–58.
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Annex 2

The Hungarian SAPRI exercise

*Károly Lóránt*¹

Since the World Bank began promoting structural adjustment programs (SAPs) and transforming economies across the Third World in 1980, poverty and income inequality have intensified and societies have become increasingly polarized. From Mexico to Russia and through much of Latin America and Africa, these tensions have engendered internal conflicts, political instability and threats to regional security. Across the South, emerging-market economies have become dependent upon speculative capital, leading to a series of financial crises that have necessitated bailouts by the international community.

Citizen reaction to these programs and their effects has been widespread and intense, and civil-society mobilization has been growing. In particular, a constantly expanding, cross-sectoral international network presently encompassing more than 1,200 citizens' organizations has taken shape over the past year to organize international and national public dialogues and participatory, on-the-ground investigations regarding the impact of structural adjustment measures. This unprecedented coalescing of forces, ranging from African grassroots women's groups and Latin American peasant associations to the AFL-CIO and other national and international labour-union confederations, and including NGOs from some 65 countries, holds considerable promise as a progressive and constructive determinant in the future of the economic globalization process.

The Structural Adjustment Participatory Review International Network (SAPRIN) was originally organized around a major initiative taken with World Bank President Jim Wolfensohn to assess in ten countries, through civil-society /government/Bank collaboration, the impact of various adjustment measures on a range of population groups and economic and social sectors. The Structural Adjustment Participatory Review Initiative (SAPRI) is designed to yield recommendations to the World Bank and governments for changes in economic adjustment programs and in economic policy-making processes. SAPRI is also legitimizing an active role for civil society in economic decision-making and, if successful, will give governments greater flexibility to respond to the needs and priorities of their own people rather than to the dictates of international creditors.

Hungarian civil organizations decided to join SAPRI because a wide scope of the social segment was generally greatly disappointed in the results that followed the change in political regimes. People in Hungary expected (because this is what they heard) that by moving from the earlier planned economy system toward a more effective model based on market fluctuation, the country's economy after decades of stagnation would enter an upswing. Unfortunately, this did not happen. For the greater part of society the change in regime brought a drastic and prolonged decline in their quality of life and greatly increased insecurity about maintaining their living standard.

According to the opinion of Hungarian civil organizations, it was not a matter of decree that all these effects take place; after all, change to a market economy did not result in set-backs in all countries. China, for example, moved to a market economy by reaching over 10% economic growth annually over a two decade period. In Hungary and East-Central Europe generally, the great measure of decline is largely attributable to the international financial organizations, including the World Bank, imposing concepts of economic policy that were foreign to the characteristics of the countries in this region.

In the formulation of Hungarian government policy, the agreements the Hungarian government made with the World Bank also played a significant part. It is for this reason that Hungarian civil organizations con-

¹ Initiator of the Hungarian SAPRI exercise. Document provided by the SAPRI Secretariat.

sider it justified that, within the framework of SAPRI and in cooperation with the government and the World Bank, they analyze the economic and social effects of these contracts.

Organization of SAPRI in Hungary began in the autumn of 1996 with increased participation from civil organizations. In April of 1997 the government decided to join the SAPRI program. Subsequently, a Civil National Committee comprising various civil organizations was established and later, with the cooperation of the World Bank, the government and civil organizations, the National Management Committee and technical and informational committees were formed.

In preparation for the First National Forum, we introduced the objectives and content of the SAPRI review to civil organizations and residents at ten county forums. The First National Forum took place in June 1998 in Esztergom, a small historic city some 40 kilometers from Budapest. Representing the civil sector, government and the World Bank, approximately 180 participants attended. The significance of the Forum is exemplified by the participation of four government State Secretaries and ten ministerial department heads. Representing the World Bank were Lyn Squire and Branco Milanovics from Washington D.C.; Roger Grawe, Mihály Kopányi and Tünde Buzetsky from the Budapest office; as well as Allan Mark, representing the International Monetary Fund in Hungary. The Forum gave voice to 35 presentations and 42 comments, which in itself demonstrates the significant interest with which the Forum was regarded.

Annex 3

Regional seminar for workers' organizations on globalization and trade unions in Central and Eastern Europe

*Budapest, 22–24 November 1998
Hotel BARA (Hegyalja út 34–36)*

Final programme

Sunday, 22 November

- 14:00 **Registration**
- 14:30 **Welcome and opening statements**
Moderator: Oscar de Vries Reilingh (Director, ILO-CEET, Budapest)
Guy Ryder (Director, Bureau for Workers' Activities – ACTRAV)
László Sándor (Acting President of the Workers' Side of the Reconciliation Council of Hungary)
- 15:00 **Keynote address:** *Responding to the challenges of globalization in Central and Eastern Europe*
Richard Falbr (ILO Governing Body Representative)
- 15:30 Break
- 16:00 **Panel discussion:** *Overview of the challenges for trade unions in Central and Eastern Europe generated by globalization*
Stephen Pursey (ICFTU)
Krastyo Petkov (Bulgaria)
Dimitina Dimitrova (ACTRAV)
- 18:00 **General discussion**
- 19:00 Reception

Monday, 23 November

- 9:00 **Moderator:** Lajos Héthy (Research Institute for Labour, Hungary)
Keynote address: *The role of the ILO and the Tripartite Declaration of Fundamental Principles and Rights at Work and its Follow-up*
Kari Tapiola (Deputy Director-General, ILO)
- 10:00 Break
- 11:00 **Panel discussion:** *Governance of the global economy*
Mihály Kopányi (World Bank Representative, SAPRI programme in Hungary)
Károly Lóránt (SAPRIN, Hungary)
Bob Kylvoh (ACTRAV)
Krzysztof Hagemejer (Social Security Specialist, ILO-CEET)
- General discussion**
- 13:00 Lunch

14:30 **Panel discussion:** *Trade unions and the changing industrial relations environment at the national and international levels*
Dimitrina Dimitrova (ACTRAV)
Bob Kyloh (ACTRAV)
Giuseppe Casale (Labour Law and Industrial Relations Specialist, ILO-CEET)
Frank Hoffer (Workers' Activities Specialist, ILO Moscow)
Peter Gajdoš (Head of Economic Department, KOZ SR, Slovak Republic)

15:45 Break

16:00 **General discussion**

Tuesday, 24 November

8:30 **Moderator:** Eckhard Jaedtke (European Union)
Panel discussion: *The implications of European economic integration and innovations in labour market policy from Western Europe*
David Foden (ETUC)
Werner Sengenberger (Director, ILO Employment and Training Department)
Roma Dovydeniene (Lithuanian Trade Union Unification and Spokesperson for the Lithuanian Social Democratic Party on European Integration and Industrial Relations)

10:00 Break

10:30 **General discussion**

12.00 Lunch

13:30 **Trade union response and follow-up, conclusions and future work in the region**
Guy Ryder (Director, ACTRAV)
Dimitrina Dimitrova (ACTRAV)
Elizabeth Goodson (Workers' Activities Specialist, ILO-CEET)
Frank Hoffer (Workers' Activities Specialist, ILO Moscow)

16:30 Break

17:00 **CD-ROM on globalization:** Information session

Annex 4

List of seminar participants

Albania

BSPSH
KSSH

Mr Lulzim Rada
Mr Xhafer Dobrush

Bosnia-Herzegovina

CSI-BH
Ms Fatima Fazlic

Mr Sulejman Hrle

Belarus

CDTUB
FTUB

Mr Gennady Bikov
Mr Ivan Goursky

Bulgaria

KNSB
PODKREPA

Mr Nikolaj Nenkov
Mr Mladenov Totyou

Croatia

KNSH
UATUC

Mr Bozo Mikus
Ms Darinka Orel

Czech Republic

CMKOS

Mr Vladimir Matousek
Mr Martin Fassmann

Estonia

EAKL

Ms Asse Soomets
Ms Helle Palk

Hungary

ASZSZ
LIGA
MOSZ
MSZOSZ

Mr Pál Gergely
Mr Tibor Migács
Ms Judit Czugler Iványi
Mr Tamás Wittich
Mr Károly György
Mr Péter T. Bányai
Mr Sándor Orosz
Mr János Vadász

SZEF

Latvia

LBAS

Ms Velta Krumina

Lithuania

LWU
Unification

Ms Aldona Balsiene
Ms Roma Dovydeniene

FYR Macedonia

FTUM

Mr Jursit Rifat
Ms Elizabeta Krkaceva

Moldova

FGSRM

Ms Valentina Postolache
Mr Nicolai Stratila**Poland**Solidarnosc
OPZZMr Bogdan Szozda
Mr Bogdan Grzybowski**Republic of Yugoslavia**

Nezavisnost

Mr Mihail Aradarenko

RomaniaBNS
Cartel ALFA
CSDR
CNSLR FratiaMr Arpad Suba
Ms Luminita Vintila
Ms Maria Morarescu
Mr Sorin Stan**Russia**

FNPR

Ms Galina I. Strela
Mr Valentin A. Sudarikov
Mr Vladimir Sharov
Mr Andrey Efremenko

KTR

VKT

Slovakia

KOZ SR

Mr Milos Krššak
Mr Peter Gajdoš**Slovenia**Neodvisnost
ZSSSMr Edvard Krzisnik
Mr Sandi Bartol**Ukraine**

FPU

FPU

Mr Valentin Pozhydaev
Mr Sergiy Savchuk**International Labour Organization**Deputy Director General
Governing Body
Bureau for Workers' Activities
(ACTRAV)Employment Policies Dept.
ILO-CEET, Budapest

ILO Moscow

Mr Kari Tapiola
Mr Richard Falbr
Mr Guy Ryder
Mr Bob Kylvoh
Ms Dimitrina Dimitrova
Mr Werner Sengenberger
Mr Oscar de Vries Reilingh
Ms Elizabeth Goodson
Mr Giuseppe Casale
Mr Markus Ruck
Mr Krzysztof Hagemeyer
Mr Maarten Keune
Ms Eszter Szabó
Mr Theodore Fisher
Mr Frank Hoffer

Resource persons

Reconciliation Council of Hungary

Acting President Mr László Sándor
Secretary Mr Kálmán Pethő

Research Institute of Labour

Hungary Mr Lajos Héthy

Delegation of the European Commission to Hungary

Mr Eckhard Jaedtke

World Bank

Mr Mihály Kopányi

SAPRIN (Hungary)

Mr Károly Lóránt

ICFTU

Mr Stephen Pursey

ETUC

Mr David Foden

Bulgaria

Mr Krasztyo Petkov

Observers

WCL

Mr Imre Palkovics

ITS

IMF - Budapest Mr Jean Lapointe

AFL-CIO

Solidarity Center (Slovakia) Mr Donald Ellenberger