Disembedded Politics: Neoliberal Reform and Labour Market Institutions in Central and Eastern Europe

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Abstract
Defying predictions of radical liberalization, labour market institutions in post-socialist Central and Eastern Europe are characterized by relatively protective employment legislation, sometimes combined with collective bargaining rights. However, not all protective employment regimes survived political attack by neoliberal reformers. Existing theories in comparative political economy suggest that employment regimes reflect the relative political power of producer groups. Others have suggested that in Central and Eastern Europe the content of labour market reform was determined by the coercive influence of transnational actors. Through a comparative analysis of labour market reform in Bulgaria, Czech Republic, Romania and Slovakia, this article finds that trade unions played a key role in early institutional settlements over labour markets. However, in Romania and Slovakia, these institutional settlements were subsequently undermined by attacks by ideologically motivated domestic elites in episodes of disembedded politics. The article develops the concept of disembedded politics and demonstrates its importance in post-socialist institutional change.

Keywords: political economy; post-communist politics; comparative politics; labour markets

In the 1990s there was widespread concern – or hope, depending on one’s perspective – that the hegemony of neoliberal ideology during Central and Eastern Europe’s (CEE) transition to capitalism would result in a uniform set of liberal market economies in the region (Sachs 1993). Yet, in labour market institutions, reform has not followed a strictly liberal path. Many states have instituted and maintained levels of employment protection and collective bargaining rights that make these economies markedly distinct from existing liberal market regimes (Barr 2005; Tonin 2009). Recent work in the political economy of market transitions has examined the role of social policy in facilitating the ‘embeddedness’ of the new market economies of post-socialist states as the region became integrated into the

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global economy (Bohle and Greskovits 2012; Crowley and Stanojević 2011; Farkas 2011; Jürgens and Krzywdzinski 2009; Nölke and Vliegenthart 2009). Yet there has been less focus on understanding the politics of labour market reform in the making of post-socialist capitalisms. This article fills that gap.

A long-standing literature in comparative political economy argues that political mobilization by trade unions and the rise of worker-based parties was central in shaping labour market institutions in the advanced capitalist countries (Esping-Andersen 1990; Haggard and Kaufman 2008; Iversen and Stephens 2008; Korpi 1983). Does variation in the political strength of labour similarly explain differences in labour market institutions in Central and Eastern Europe? This article explores this question by taking a comparative, process-oriented approach to labour market reform across four states: Bulgaria, the Czech Republic, Romania and Slovakia. The article shows that economic crises in the late 1990s formed key junctures in the making of labour market reforms in these cases. Reforms led to politically negotiated institutional settlements consisting of employment regimes that were protective of employment and robust collective bargaining systems. In each case, these institutional settlements were achieved with the backing of major trade unions and the consent of employer groups. However, in two cases, these settlements were undermined by neoliberal governments in spurts of highly politicized radical liberalism.1 Rather than reflecting a new sociopolitical consensus around liberal markets, or channelling the demands of powerful external actors, political moves to liberalize labour markets were instead undertaken by domestic actors driven largely by ideological motives. Given broad opposition to these policies, labour market liberalization resulted in the subsequent politicization of labour market reform and the breakdown of consensual modes of social policymaking in the states where it was carried out. A consequence was the rise of a ‘pendulum politics’ of radical change in labour market legislation with each handover of government from right to left. The ensuing political and institutional uncertainty in cases that underwent episodes of disembedded politics was consequential in weakening capacities for national coordination in the political economy. Empirically, this article traces the initial conditions leading to such politics and discusses their institutional outcomes. Theoretically, the article highlights the relevance of disembedded politics for understanding and explaining the dynamics of post-socialist comparative institutional development in Central and Eastern Europe.

This article is organized in three parts. The first part discusses the political economy of labour market institutions and its significance to democratic policymaking and economic performance as it has emerged in the comparative political economy literature. The second part of the article compares patterns of labour market reform in Bulgaria, the Czech Republic, Romania and Slovakia, tracing the political origins of post-socialist labour market institutions and causes behind their liberalization and politicization in the latter two cases. The article then discusses the consequences of the politicization of labour market reform. The last part concludes.

The political economy of labour market institutions
A cursory view of levels of employment protection across the states of Central and Eastern Europe as measured by a common indicator (see Table 1) shows that the
The neoliberalization thesis fails to account for the significant variation between these states of a key feature of labour market institutions: the level of employment protection. If the neoliberalization thesis cannot explain these differences, what does? The comparative capitalisms literature furnishes a number of possible explanations.

As one of the key sites of commodification (Polanyi 2001[1944]), labour markets and their institutional variation constitute a central dimension that differentiates market economies at the national level (Emmenegger 2014; Estevez-Abe et al. 2001; Haggard and Kaufman 2008; Hall and Soskice 2001; Huber and Stephens 2001; Mares 2001; Swenson 2002; Thelen 2004). Typically, labour market institutions are distinguished across two dimensions: the level of protection the law provides to employees from the action of employers (employment protection), and the degree of collective bargaining involved between employers and employees in the making of employment contracts (collective bargaining). Differences in these two dimensions have important consequences in governing norms and expectations of employer–employee relations and in aggregate generate significant macroeconomic and social effects (Estevez-Abe et al. 2001; Kolberg and Esping-Andersen 1992).

By definition, protective employment legislation places legal restrictions on the ability of employers to terminate employment at will, and may enforce additional mandates on employers, including advance notice before dismissal, severance packages in case of lay-offs, or that termination of employment remains the last option after other possibilities (retraining, relocation, temporary furloughs, etc.) have been exhausted. Protective employment legislation may also impose restrictions on overtime work such as limiting hours worked or requiring wages higher than normal rates. It also regulates other areas of employment, such as mandating time off for parental and sick leave. Protective employment regimes add to an employee’s sense of job security and serve to socially embed gainful employment in the context of non-economic social needs (Emmenegger 2014).

Collective bargaining determines the extent to which key aspects of employment contracts – including but not limited to wages, benefits and other aspects of employment – are determined by routine collective agreement between employers and employee representatives (trade unions), and the level at which that bargaining takes place (national, sectoral or company). Historically, in the advanced capitalist states, collective bargaining and high levels of employment protection tended to be

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Source: Adapted from Kogan et al. (2008: 55).
Notes: Based on OECD methodology. Higher values indicate greater protection. EU15 average excludes Luxembourg.
correlated and combined in states with strong corporatist features (Estevez-Abe et al. 2001; Hall and Gingerich 2004; Katzenstein 1985; Soskice 1999; Swenson 2002). In the post-socialist economies, radical liberalizing pressures were especially high during the course of market reform in the 1990s, and these extended to reforms aimed at labour market institutions (EBRD 2000). This was due both to the ideological hegemony of the ‘Washington Consensus’ and the power and preferences of international financial institutions (IFIs) which influenced the content of market reform policies in the region (Appel and Orenstein 2018). Nonetheless, with the exception of Hungary and Poland, most Central and Eastern European states introduced relatively protective employment legislation regimes and/or collective bargaining at varied levels of centralization (Ost 2000, 2005; Sil 2017) (Tables 1 and 2).

From the Varieties of Capitalism (VoC) perspective, employment protection and collective bargaining, alongside collective skill formation and social insurance policies, represent a key differentiating factor between coordinated and liberal market economies (CMEs and LMEs) (Busemeyer and Trampusch 2012; Hall and Soskice 2001). According to this literature, a key feature of CMEs is the economy’s reliance on skilled industrial labour which is supplied by specialized apprenticeships and vocational training (Bosch and Charest 2008; Huber and Stephens 2001; Iversen and Stephens 2008; Soskice 1999). At the structural level, social insurance in the form of protective employment regimes functions as an ‘institutional complementarity’ that reinforces an export model of high-end manufactured goods that depend on skilled industrial labour (Estevez-Abe et al. 2001; Streeck 1991). The effect of these institutions on the labour market is to operate as risk-reducing factors supporting the individual employee’s willingness to invest in specialized skill acquisition (Bosch and Charest 2008; Estevez-Abe et al. 2001). It is often accompanied by a mutual, long-term commitment of employers to employees, and vice versa. By contrast, the liberal employment regimes found in LMEs make employee dismissals less costly for firms, provide fewer institutionalized protections to employees and provide meagre unemployment benefits. This kind of

| Table 2. Coordination of Wage-Setting and the Level of Coordination in Each Country |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                 |               |               |               |               |               |               |
|                                 | Coordination of wages | Level of coordination |
| Bulgaria                        | 5     | 2    | 2   | 3     | 3    | 2    |
| Czech Republic                  | 4     | 2    | 2   | 2     | 1    | 1    |
| Hungary                         | 2     | 2    | 1   | 2     | 1    | 1    |
| Germany                         | 4     | 4    | 4   | 3     | 3    | 3    |
| Poland                          | 1     | 1    | 1   | 1     | 1    | 1    |
| Romania                         | 2     | 4    | 2   | 5     | 5    | 1    |
| Slovakia                        | 3     | 1    | 3   | 3     | 2    | 2    |
| Slovenia                        | 5     | 4    | 3   | 5     | 5    | 3    |

Source: Jelle Visser, AIAS-ICTWSS database.

Note: For coordination: 5 = centralized by peak associations, 4 = centrally bargained wage norms or guidelines, 3 = centrally mandated negotiation guidelines, 2 = mixed industry and company-level bargaining, 1 = fragmented and individual firm-level bargaining. For level: 5 = bargaining at the central or cross-industry level, 4 = intermediate between central and industry, 3 = sector and industry level, 2 = sector and company level, 1 = local or company level. Germany’s levels are included to illustrate those of a recognized coordinated market economy.
employment regime is ‘complementary’ to the other features of LMEs: a higher risk-taking, entrepreneurial orientation in business, an emphasis among employees on the acquisition of transposable general skills that can be applied across firms and sectors, accompanied by greater employee turnover in firms (Hall and Soskice 2001; Soskice 1999).

Inferring from the insights of the VoC framework, one might suggest that the emergence of protective employment regimes in the states of Central and Eastern Europe may be related to two structural features of these economies. The first is the industrial and export-oriented character of these economies. Unlike the deindustrializing economies of Western Europe, Central and Eastern European economies continue to employ large numbers of workers in industrial and technical occupations (Table 3). Inflows of foreign direct investment (FDI) directed towards the manufacturing sector and the turn towards subsidiary roles in transnational production networks have sustained the region’s industrial character in spite of its dramatic structural and institutional change in other areas (Bruszt and Greskovits 2009; Jürgens and Krzywdzinski 2009; Pula 2018). Second, the general orientation of the economy is further reinforced by past legacies, given the priority attached to industrialization during the socialist era (Greskovits 2014; Lavigne 1999). The legacy of socialist industrial development has affected not only the character of the economy, but also that of education, given the continued prevalence in the region of vocational and technical training (Kogan et al. 2011; UNESCO 2006). In this context, social insurance policies in the form of employment protection and collective bargaining should encourage ‘investment in specific skills and … [enable] firms to specialize in international niche markets’ (Iversen and Stephens 2008: 605).

Although the VoC framework describes the institutional functions that employment protection and collective bargaining play in coordinated market systems, it gives little indication as to where such institutions come from. This is a common and recurring critique of the VoC perspective (Coates 2015; Crouch 2005;

| Table 3. Skilled Manual Workers as a Percentage of Total Employment in 2012 |
|--------------------------------------------|--------------------------------------------|--------------------------------------------|
| Plant and machine operators and assemblers (%) | Craft and related trade workers (%) | Total skilled manual workers (%) |
| Czech Republic | 13.6 | 17.5 | 31.1 |
| Hungary | 13.5 | 14.7 | 28.2 |
| Poland | 10.3 | 15.1 | 25.4 |
| Slovakia | 14.5 | 17.6 | 32.1 |
| Slovenia | 9.4 | 13.4 | 22.8 |
| Bulgaria | 13.3 | 14.1 | 27.4 |
| Romania | 10.0 | 15.7 | 25.7 |
| Non-CEE | | | |
| Denmark | 5.5 | 8.7 | 14.2 |
| Finland | 7.7 | 11.4 | 19.1 |
| France | 6.7 | 8.4 | 15.1 |
| Germany | 6.5 | 12.9 | 19.4 |
| Ireland | 5.6 | 9.6 | 15.2 |

Source: OECD World Indicators of Skills for Employment.

Note: Non-CEE cases are randomly selected and included for purposes of illustration.
Korpi 2006; Streeck 2009; Thelen 2010). In Central and Eastern Europe, industrial legacies and continued specialization in the export of manufactured goods – in addition to socialist legacies of guaranteed employment – are no doubt important necessary conditions for the rise of protective employment regimes. But these factors cannot account for the divergent nature of employment regimes across cases following shared patterns and timings of reform. Employment regimes have not become fully liberal, but neither does their variance fully comply with expectations given by their institutional legacies and emerging comparative advantages in international markets. Some have argued that, unlike in longstanding European CMEs, Central and Eastern European governments have been under pressure to adopt more liberal employment laws and push back against labour force unionization due to demands from leading global manufacturing firms that maintain production facilities in these countries and who have an interest in maintaining low labour costs (Nölke and Vliegenthart 2009). However, as this article’s empirical analysis shows, there is little evidence that demands by transnational business groups or international financial institutions were decisive in driving political demands for labour market liberalization during key episodes of labour market reform. Moreover, heavily transnationalized economies like that of the Czech Republic have retained protective employment in spite of the disproportionate size of the transnational sector. In other words, neither industrial legacies nor existing structural features of the economy provide clear-cut explanations for the variation in labour market institutions.

If neither structural features of the political economy nor dominant business interests account for variation in the nature of labour market institutions, what does? Following the tradition of historical institutionalism, this article assumes that labour market institutions are determined by dynamics at the level of political institutions (Steinmo et al. 1992; Thelen 2010). The article assumes that labour market institutions are the result of political compromises between competing socioeconomic groups and form what I call an institutional settlement (Campbell 2004). Institutional settlements are the outcome of political processes taking place within institutionalized polities. When they involve the consent of the majority of stakeholders, institutional settlements can create lasting organizational structures that regulate and structure dynamics within a social domain. Political compromise sets the terms of the settlement, while institutionalization implies that the compromise establishes not only a political ‘equilibrium’ between organized actors, but becomes reflected in the durable set of norms, organizational practices and ancillary institutional structures that emerge out of the initial process of contention and bargaining. Institutional settlements therefore involve patterns of ‘deep’ institutionalization in both the organizational and the normative and cultural-cognitive sense (Amable and Palombarini 2009; Campbell 2004; Rueschemeyer et al. 1992; Scott 2008).

This article’s empirical analysis is in alignment with expectations of power-political theories of labour market development, including the power resources approach (Kolberg and Esping-Andersen 1992; Korpi 1983, 2006) and the more recent neo-realist perspective (Amable and Palombarini 2009; Boyer 2005; Streeck 2009). These approaches argue that labour market institutions are shaped by labour’s political mobilization during key historical junctures of institutional
development. Consistent with power-political explanations, the power of trade unions is found to account for the institutionalization of protective employment regimes and collective bargaining in post-socialist Central and Eastern Europe. What power-political explanations do not adequately account for is the subsequent revision of these institutional settlements on terms that are more favourable to the interests of employers. These politically driven institutional changes do not reflect radically changed sociopolitical conditions (such as the sudden assertion of employer interests or the drastic decline in trade union power), but rather episodes of institutional reform driven by ideologically motivated projects to implement a radical liberalization of the economy.

Processes of ideologically directed but socially baseless institutional change are here conceptualized as episodes of ‘disembedded politics’. Disembedded politics are episodes of politically driven dramatic institutional change whose motivation and content reflect the ideologically driven goals of small groups of political elites rather than a broader sociopolitical consensus or the interests of organized societal constituencies. The conditions that have made disembedded politics likely in Central and Eastern Europe lie in the weakly institutionalized party systems that have long been identified by comparativists as distinct features of the region’s democracies (Kitschelt 1992, 1995; Kitschelt et al. 1999; Mair 1996; Rovny 2014; Tavits 2008). Rather than serving as ‘mediatory organizations’ or ‘transmission belts’ of the interests of major social and economic groups, political parties reflect interests that are more narrowly grounded in those of party leadership. As phrased some two decades ago by Peter Mair (1996: 181), ‘the electorate and the parties are different’ in a pattern of party organization that has not changed dramatically since (Kitschelt 2015). While acknowledging these characteristics, the literature on party systems has not always shown what the policymaking consequences of such a party structure are. With some exceptions, they do not describe the conditions under which high levels of party elite autonomy from societal interests can lead to political action that has major ramifications for the institutional structure of the economy and the state (Grzymala-Busse and Innes 2003). Here, I argue that the capacity of parties to undertake ‘socially disembedded’ political action, one that is driven largely by elite ideological goals, is what explains the capacity of neoliberal parties in Central and Eastern Europe to mount frontal attacks against settlements over labour market institutions through the unilateral imposition of radical liberalization measures. These episodes and their economic and political consequences are examined in two cases that experienced such sudden political attacks against protective employment and collective bargaining systems, Slovakia in 2002–4 and Romania in 2011.

To summarize the argument, I find that the political power of trade unions and the assent of employers was crucial in the construction of protective employment regimes and collective bargaining institutions across the Central and Eastern European states in the early 2000s. These factors lead to the adoption of protective employment legislation even when parties of the left have little or no role in government. However, when these compromises later resulted in liberal backlashes, labour market liberalization was not the consequence of the weakening of trade unions or the shifting interests of powerful interest groups like employers’ associations. Instead, it is the willingness of neoliberal party reformers to use the
prerogative of political power to legislate a minority political project against strong disapproval by other organized actors. These episodes of disembedded politics represented the ideological goals of a narrow group of political elites, rather than a reflection of deeply seated and organized political interests (Ban 2016). The consequence of such episodes is not the reaching of a new institutional settlement, but the long-term politicization of labour market reform alongside the weakening of capacities for social policy bargaining and coordination at the national level. To demonstrate its claims, this article takes a comparative-historical approach by examining political dynamics and outcomes through the method of critical juncture analysis and the comparison of most similar cases (Abbott 1990; Capoccia and Kelemen 2007; Collier and Collier 1991; Ragin 2008).

Institutional settlements in post-socialist labour market institutions: Bulgaria, the Czech Republic, Romania and Slovakia

A common feature of Bulgaria, the Czech Republic, Slovakia and Romania is that the making of protective employment regimes followed disruptive economic crises which challenged the content and aims of economic reforms implemented in the first wave of post-socialist market reform (1989–96). In Bulgaria, the financial meltdown of 1996 led to widespread bank failures, hyperinflation and currency collapse. In the Czech Republic, a financial crisis in 1997 exposed the structural weaknesses of the enterprise sector and the limits of mass privatization implemented under the leadership of Prime Minister Vaclav Klaus. In Slovakia, a financial crisis exposed the corrupt practices of the authoritarian government of Vladimír Mečiar, while in Romania a major collapse in industrial output in 1997 brought to light the limited progress in industrial restructuring under Romania’s state-managerial capitalism (Pop 2006).

The crisis period also saw the turnover of political power as electorates dislodged incumbents. In 1996, Romanians ousted Ion Iliescu’s National Salvation Front (FSN) from power and elected a centre-right leadership under President Emil Constantinescu and Prime Minister Victor Ciorbea of the Romanian Democratic Convention (CDR). In 1997, Bulgarians overwhelmingly voted for the opposition United Democratic Front (SDS), removing the Bulgarian Socialist Party (BSP) from power and leading to the formation of Bulgaria’s first stable post-socialist government under the leadership of Ivan Kostov. The Czech Republic saw the handover of power from Klaus’s Civic Democratic Party (ODS) to the Czech Social Democratic Party (ČSSD) in the elections of 1998. That same year in Slovakia, a united opposition defeated Mečiar’s nationalist Movement for a Democratic Slovakia (HZDS) to form a broad coalition government under Mikuláš Dzurinda of the Slovak Democratic Coalition (SDK). The contexts of economic crisis, turnovers in political power and contention over the direction of future reform formed an important backdrop to the reform of labour market institutions in each state.

Emerging out of the communist legacy of guaranteed employment and labour laws that were highly favourable to employees (Inglot 2008; Noelke and Müller 2011), a number of initiatives to begin the process of labour market reform were already implemented in the 1990s. With the continued strength of trade unions and the need to maintain popular support for painful economic restructuring,
reforms proceeded in a negotiated, piecemeal fashion. Even the Czech government under Klaus, otherwise a committed neoliberal, chose not to impose unilateral liberalization measures in ways that could alienate political constituencies (Appel 2004; Orenstein 2001). Maintaining such continuity, labour market reforms proceeded in the 1990s through amendments to existing communist-era laws. In addition, in order to create mechanisms for negotiation, states saw the introduction of tripartite institutions of social dialogue and collective bargaining, signalling a move towards neocorporatism (Iankova 2002). The pressures unleashed by the economic crises of the late 1990s and the launching of processes of EU accession worked to return labour market reform on the policy agenda in the early 2000s.

The impact of economic downturns led to the resurgence of labour mobilization across the region. In Slovakia, the dominant trade union confederation, KOZ, broke ties with the ruling HZDS party to place its support behind the SDK in the 1998 elections. This placed KOZ in a strong position to negotiate two crucial pieces of legislation with the new post-authoritarian government: the Labour Code and the Tripartite Act. Both were adopted in 2001 to create a protective employment regime and reinforce tripartism and collective bargaining. In Bulgaria and Romania, dominant trade unions staged a wave of strikes and protests in response to wage arrears, falls in wages, cuts in social programmes and uncertainty over jobs. In Bulgaria, the Kostov government successfully integrated the Confederation of Independent Trade Unions of Bulgaria (KNSB) and a smaller union, Podkrepa, into institutions of social dialogue, even appointing a minister of labour and social affairs from their ranks. This also led to the adoption of protective employment legislation in 2001. In Romania, negotiations over the new Labour Code and collective bargaining took a more contentious turn, with strikes and protest activity organized by trade unions spiking in 1997–9, but little progress made in labour market reform. In 2000, Romania saw the return to power of Ion Iliescu and a government under Adrian Năstase and Romania’s Social Democratic Party (PSD). Under Năstase, trade unions successfully negotiated a protective employment regime and a strong neocorporatist system implementing national-level collective bargaining (Bush 2004). Major reforms were concluded in 2003.

In the Czech Republic, trade union mobilization was not strong, but trade unions benefited from the long tenure of the pro-labour ČSSD after 1998. Moreover, while necessitating some structural reform, the Czech crisis was overcome with the growing role of foreign investment in the economy (Drahokoupil 2009; Myant 2003). Indeed, the adoption by governments of protective employment legislation in a region experiencing tremendous FDI inflows shows that there is no simple correlation between the region’s deepening incorporation into transnational production networks and liberal employment laws, as suggested by some (Nölke and Vliegenthart 2009). In 2006, relying on the votes of the Czech Communists, the ČSSD introduced a new Labour Code that granted strong protections to employees. While tripartism and collective bargaining were less deeply institutionalized in the Czech Republic than in Romania or Bulgaria (being confined mainly to the company level), the Labour Code itself was among the most protective in the OECD. Opposition and protests by Klaus (elected president in 2003), ODS and ČSSD’s smaller coalition members and Czech employer associations were insufficient to overturn support for the new law.
Protective employment regimes: survival and challenge

The new employment regimes faced challenge from oppositional actors virtually as soon as they were adopted. However, in the Czech Republic and Bulgaria, these challenges failed to produce major change. The return of the ODS to power in the Czech Republic in 2007 saw revision made to the protective employment regime adopted the year before, but the changes were limited to minor adjustments on rules for overtime, weekend and shift work and bonus payments. In Bulgaria, the election of a centre-right government under Simeon Saxe-Coburg-Gotha (Saks koburggotski) in 2001 saw the coming into power of business interests that were strongly supportive of labour market liberalization. However, trade unions successfully resisted pressures for major institutional change, while the alliance of business interests behind Sakskoburggotski disintegrated. In 2005, the BSP returned to power in Bulgaria.

A second wave of challenges came in the aftermath of the 2008 global financial crisis and the ensuing recession. Recessions in the region were caused by a combination of the global credit crunch, collapsing export markets and falling investments. These were followed by major fiscal difficulties which placed pressures on governments. Labour market liberalization came back onto the political agenda. At the height of the crisis in 2009–10, the Czech Republic was led by a caretaker government consisting of both ČSSD and ODS. In 2011, an ODS-led government introduced amendments to the Labour Code, but again these were confined to piecemeal changes. Overall, the institutional settlements forged in the early 2000s held up against renewed liberalization pressures.

A very different dynamic took place in Slovakia and Romania. Here, succeeding governments aimed at implementing dramatic liberalizations of labour market institutions, marking a radical departure from the settlements achieved in the early 2000s. The following sections discuss the cases in some detail.

Slovakia

In Slovakia, attacks against the existing settlement over employment legislation and collective bargaining came under fierce attack as soon as it was adopted in 2001. This was partly because of splits emerging in the ruling SDK grand coalition. As a pro-EU stance and opposition to Mečiar’s authoritarianism had been the primary issues uniting the coalition, maintaining unity became increasingly difficult as parties and factions held differing views on the direction reforms should take. Parties of the right were unhappy with the corporatist model propounded by KOZ and its left allies in government. Splits emerged across the political spectrum. Dzurinda broke with the Christian Democratic Movement (KDH) to create his own centre-right party, the Slovak Democratic and Christian Union (SDKÚ). On the left, a faction of the ex-Communist Party of the Democratic Left (SDL) led by Robert Fico also split to form Smer (Direction). The fragmentation generated fears among reformers and international actors that Slovakia’s 2002 elections might result in the return to power of Mečiar and the HZDS.

The 2002 elections were a showcase of Slovakia’s political fragmentation. While the HZDS obtained a plurality of votes, it failed to find governing allies.
This enabled Dzurinda and his SDKÚ to form a second government (2002–6). Relying on a narrower coalition with a much more explicit and radical neoliberal programme, Dzurinda’s second administration introduced a series of dramatic reforms which marked a turnaround from some of the policies implemented during his first term. The financial press and IFIs showered Slovakia with praise in its new status as the neoliberal champion of Central and Eastern Europe (Fisher et al. 2007; Mathernová and Renčko 2006). In 2003, the government successfully introduced a package of reforms which included drastic austerity and tax reform that ushered in a flat income tax, sales tax and corporate tax rate of 19%. In addition, the tax reform eliminated dividend taxes, real estate transfer taxes, the gift tax and the inheritance tax in one of the most far-reaching ‘flat tax revolutions’ of the post-socialist world (Appeland Orenstein 2018). In 2004, the government further introduced a ‘workfare’-type welfare reform programme and cuts in social benefits.

Alongside these reforms, Dzurinda’s second government proposed amendments to the Labour Code. The amendments greatly reduced the existing rights of trade unions. For instance, firms not involved in collective bargaining were made exempt from collective wage agreements. New rules made it easier for employers to reallocate and dismiss workers, more allowance was given to employers to choose temporary and part-time contracts, and statutory limits to overtime work were extended from 150 to 400 hours annually. As Slovakia’s unemployment rate approached 20%, the issue was used as justification for labour market reforms, as leading neoliberals in the Dzurinda government blamed labour market ‘rigidities’ for Slovakia’s unemployment crisis. Such claims were used to increase political pressure on KOZ, which opposed the reforms from the very start. Unable to stop them, the measures gained parliamentary approval in 2002. Going a step beyond instituting employment rules more favourable to employers, the ruling coalition took a more radical step in 2004, when they aimed to revoke the Tripartite Act and fully abolish collective bargaining. Political resistance to this measure was further weakened after the main employers’ association, the Association of Employers’ Unions and Federations (AZZZ), splintered, with the formation of a rival organization, the Republican Union of Employers (RÚZ) that explicitly took the government’s side on the matter. In coalition with the opposition party Smer, KOZ attempted to thwart the reform through the organization of a referendum calling for early elections, but the effort failed. By the time Dzurinda’s coalition was done, not only had employment protection rules suffered severe erosion, but Slovakia’s tripartite bodies had turned into meaningless formal structures, disempowering both employers’ associations and trade unions. In a further blow to KOZ, the new collective bargaining rules designated company-level worker collectives, and not KOZ’s trade unions, as principals in collective bargaining (Malová and Marek 2005).

One might suggest that Slovakia’s turn towards a deep liberalization programme after 2002 reflects IFI involvement in policy design. While IFIs played a key role in designing and supporting Slovakia’s economic reforms in the early 2000s, they were not the chief actors driving the direction and pace of reform during Dzurinda’s second government. As Sharon Fisher et al. (2007) point out, Slovak leaders were responsive to IFI pressures during the first Dzurinda
government (1998–2002), given Slovakia’s need to rejoin the Western clubs which had snubbed the country during Mečiar’s authoritarian leadership. Reforms to tackle the fiscal crisis, rescue the banking sector and dismantle HZDS’s patronage system were significant during this period, but they were far from the depth of neoliberal restructuring seen during Dzurinda’s second term. Rather than channelling external pressures, the success of neoliberal politics in Slovakia after 2002 was the result of the capacity of a small group of well-placed neoliberals to use the political opportunity provided by the post-Mečiar reforms and Slovakia’s forthcoming EU accession to implement their largely self-designed economic programme. This group was led by Dzurinda’s minister of finance, the economist Ivan Mikloš, who was one of the neoliberal reform programme’s chief architects. Even the World Bank warned Mikloš that his reforms were ‘going too far and too fast’ (Fisher et al. 2007: 992). In other words, lacking pressures from either major employer associations or powerful external actors, labour market reforms did not channel any broad domestic base of organized economic interests; nor were they pressured by powerful external actors. Instead, dramatic institutional changes were introduced largely as a result of the ideological drive of ruling political elites.

In the course of the 2000s, the social costs of reform became increasingly apparent. The reforms worsened conditions for the poor and the unemployed. Unemployment remained the highest in the region, while pensioners and the young, especially those without university education, faced growing difficulties in what seemed to be an otherwise booming economy. Real wages for industrial workers declined. In the process, KOZ overcame its largely apolitical status to grow closer to the left-leaning Smer party. All of these factors combined to produce a defeat in the 2006 elections for Dzurinda’s centre-right coalition, bringing Robert Fico and Smer to power. Fico campaigned on promises to reverse a number of Dzurinda’s reforms, including the reinstatement of collective bargaining.

**Romania**

In spite of their fragmentation, Romania’s trade unions entered the 21st century in a strong position. The conciliatory political context formed during Năstase’s tenure (2000–4) led to the adoption of Romania’s 2003 Labour Code, which was negotiated rigorously by the country’s five major trade union confederations in the main national tripartite body, the Economic and Social Council (ESC). The union-friendly PSD government accommodated many of the demands of the trade unions for maintaining stringent requirements for worker dismissals, extensive collective bargaining rights and a series of other protective measures. Collective dismissals (in the case of company restructuring) were made especially restrictive and required active trade union involvement (Micevska 2004). Protecting employment was especially important given that fiscal pressures in the early 2000s limited the government’s capacity to expand unemployment benefits and social programmes. Romania’s social spending remained very low and unemployment benefits were meagre, even by regional standards (Kogan et al. 2008). The government also preserved the collective bargaining rights of trade unions. Collective bargaining was
organized at the industry level, and in the mid-2000s collective bargaining agreements were estimated to cover over 80% of employees.3

The major turnaround for Romania’s unions came in 2009. The economic crisis of 2009 marked a dramatic end to the record influx of FDI and high growth which Romania had enjoyed between 2001 and 2008. GDP declined by an annual rate of 7%, placing Romania on the list of the worst-hit economies in Europe. The government also had to contend with a growing fiscal emergency. Romania had experienced worsening deficits after its entry into the EU, with a growing trade deficit taking its toll on foreign exchange reserves. The crisis forced the centre-right government headed by Emil Boc’s Democratic-Liberal Party (PDL) to turn to the International Monetary Fund (IMF) for assistance. The Romanian government and the IMF agreed to a loan of $13 billion, at the cost of introducing austerity measures, including a 25% cut in public sector salaries and an increase in sales tax from 19% to 24%.

In 2010, Boc’s austerity programme included pension reductions, raising the retirement age, and amendments to Romania’s Labour Code. Boc planned to reduce unemployment benefits, broaden the use of temporary contracts and abolish collective bargaining. Romania’s employers’ associations became divided on the proposed measures, with transnational corporations active in Romania gathered around lobbying organizations such as the Foreign Investors Council (FIC) emerging as the most vocal supporters of labour market reform. The FIC was a minor player among Romanian business associations. It had no representation on the ESC, but publicly promoted its ‘anti-crisis programme’, which included a proposal for a comprehensive revision of Romania’s Labour Code. In spite of its status, the organization became intimately involved in labour market reform, presenting the government with a draft for a new law, which the government adopted as its own (Ban 2016; FIC 2010; Mihai 2011). The ESC promptly rejected the FIC’s draft law. In spite of the joint opposition in the ESC by both trade unions and established employer organizations, the Ministry of Labour proceeded to push the FIC’s draft through the legislative process. In protest, trade unions suspended their participation in all tripartite bodies, complaining that their concerns had been completely ignored (FIC 2010). In spite of high-level involvement by Boc and President Traian Băsescu in the negotiations, the proposals failed to gain the support of trade unions and employer organizations, who continued to denounce the new law as nothing more than a ‘wish list’ written by the FIC. In February 2011, after negotiations with trade unions broke down, the government decided to fast-track the bill through the legislature by invoking a special procedure that enabled it to be approved without parliamentary debate (FIC 2011). Bills passed through special procedure involve a high-stakes process where legislative defeat can only be accomplished by a motion of no confidence against the government. The opposition’s call for a no confidence motion failed. Subsequent efforts to challenge the law in the Constitutional Court also failed to overturn it. Moreover, a new Law on Social Dialogue adopted soon after abolished national- and sectoral-level collective bargaining, weakening the role of trade unions both at the national level and in the workplace (Chivu et al. 2012).

Labour market liberalization in Romania was vigorously opposed by both trade unions and major employer associations, but Boc’s government nonetheless
implemented the policy. Why? Clearly, the crisis context provided the opportunity for minority business interests to assert their back-channel influence. More significantly, unlike the Czech Republic’s cooperative approach to managing the post-2008 crisis, in Romania reform measures polarized parties. After 2009, Boc’s cabinet faced an increasingly combative opposition in parliament and confronted growing mass protests against the government’s austerity measures. However, with the full backing of his party, coalition allies and President Băsescu, Boc pushed through highly unpopular cuts in pensions, public sector employment and education. All of these were pitched by the government as necessary measures needed to save Romania from economic calamity and fiscal collapse. The major political struggles over these measures took place during 2010, when the government was struggling to meet IMF targets. There was some controversy over whether changes to the Labour Code were demanded by the IMF. While the government claimed this to be the case, trade unions suggested that this was ‘a lie’ (FIC 2011). Indeed, the IMF’s review of Romania was completed some two months before the Labour Code’s adoption in March 2011. In its review, the IMF found the Romanian government to be in compliance of targets and approved the disbursement of its next tranche payment (IMF 2011). Moreover, the IMF’s statement on the terms of the 2009 funding agreement primarily addressed measures to bring down expenditures and did not include any language requiring labour market reform (IMF 2009).

As in Slovakia, rather than external actors using their leverage to pressure governments into pursuing labour market liberalization, it was domestic political actors who used Romania’s crisis context to push for labour market liberalization and attack trade unions. Ultimately, however, this was a purely ideologically motivated choice by the ruling party. Romania faced no massive flight of capital and still had one of the lowest labour costs in the EU. Politically, members of the PDL’s ruling coalition were hardened by the post-2009 political polarization over the larger package of anti-crisis reforms. Boc’s government thus faced an opportunity to push through unpopular labour market changes because of two factors. First, the strength and unity of the ruling coalition had been forged the year before, successfully withstanding both popular pressures and political challenges from the opposition. This gave Boc confidence that his coalition’s unity would not break as it pushed for another unpopular measure. The second factor was that Boc was facing an opposition, both parliamentary and popular, that was already worn out and demoralized by having lost battles over tax hikes, pensions and the reduction of public sector wages. The PSD spent little time confronting the proposed changes to the Labour Code when they first came up in late 2010, as its primary focus was on other battles. It turned its attention to the Labour Code late in the game, after the government had already advanced its draft bill and was preparing to fast-track the legislation through parliament in ways that minimized exposure to greater public scrutiny. Similarly, trade unions, divided and confronted by attacks on multiple fronts, could not mobilize the support they needed to resist the government’s efforts to change the law. Strikes, including by auto workers at Dacia, Romania’s largest exporter, proved ineffective in dissuading Boc’s government. In 2011 trade unions reverted primarily to defensive measures.
Consequences of politicization
In Bulgaria and the Czech Republic, pressures to liberalize labour markets were resisted even as centre-right parties assumed control of governments. By contrast, Slovakia and Romania saw unilateral measures of labour market liberalization by the self-initiative of ruling parties relying primarily on the prerogatives of government and control of parliamentary majorities. As initial institutional settlements broke down, the consequence of such action has not been the establishment of a new institutional equilibrium, but the long-term politicization of labour market reform. In the aftermath of liberalization, trade unions fought back and succeeded in reinstituting some aspects of the former employment regime. But the institutional costs resulting from such deep politicization are significant.

In Romania, the assault on tripartism and trade union authority in 2011 has had significant consequences for policymaking. The Social Dialogue law of 2011 grossly undermined the role of the ESC. The new law eliminated the government’s role in the body and expanded its membership to include a wide array of employer associations and other non-governmental organizations. This ‘watered-down’ ESC became inoperative (Chivu et al. 2012). Measures by the PSD-led government of Prime Minister Victor Ponta in 2012–13 to revise aspects of the 2011 law on Social Dialogue did not help reduce opposition from trade unions. With a weakened ESC, social policymaking was removed from direct tripartite bargaining, and its stakes have as a result also become higher. After trade union pressure, in 2015, the PSD-led government revised the Labour Code, but only tackled the controversial activity of temporary employment agencies (whose numbers had exploded after 2011). These amendments dealt with only a small set of issues that had been raised by trade unions, who preferred a reinstitution of the old law. In 2012 and again in 2015, Romanian trade unions used a law allowing citizens’ petitions to initiate legislation to press parliament for reinstitution of the old Labour Code. These efforts for dramatic changes in employment regime reflect the politicized nature of labour market institutions after 2011.

By contrast, in Bulgaria, Borisov’s post-2009 austerity measures spared labour market institutions and collective bargaining rights from direct assault, which helped preserve Bulgaria’s negotiated system of social and labour policy which had been in place since 1997. Whereas bargaining over employment protection in Romania has now turned to the use of mass politics in what has become a zero-sum game, Bulgaria has since 2009 seen the introduction of dozens of incremental amendments to its (still original 1986) Labour Code, addressing issues from paternity leave to days off for parents of adopted children.4 The amendments were negotiated through tripartite bodies, without spilling over into major political confrontations between trade unions, opposition and government.

In Slovakia, Fico’s Smer-SD government in 2006 introduced amendments to the Labour Code which restored some of the protectionist measures that had been removed in the 2003 amendments. In 2010, the return of the SDKÚ to power (under the premiership of Iveta Radičová) saw the reintroduction of liberalization measures in employment protection. After their landslide re-election in 2012, the new Smer-SD government undertook the most comprehensive reversal of labour market liberalization. First, new legislation implemented restrictions on the use of
temporary contracts. Numbering nearly half a million, these had become widespread and were a common means for employers to bypass minimum wage and social security contribution requirements (OECD 2014). More crucially, reforms restored the collective bargaining rights of unions at the sectoral level. The new rules extended collective bargaining agreements to companies which were not part of the negotiations. Second, an amendment to the Labour Code granted greater protection to employees by requiring employers to notify and discuss a termination decision with employee representatives (trade union or the worker collective) well in advance in order for the decision to be valid. An employer cannot legally terminate employment without having gone through this procedure and is made responsible for any backpay resulting from illegal termination. Added protections were provided to trade union representatives, making their termination illegal without explicit trade union consent. In essence, the law had undone many of the 2003–4 reforms, offering an example of protectionist back-pedalling in labour market reform.

In summary, the politicization of labour market institutions did two things. Politically, it undermined social dialogue at the national level (and, with that, capacities for national economic coordination) and secondly, it introduced institutional instability by creating a ‘pendulum politics’ of labour market reform with each succeeding government of the left and of the right either reducing or enhancing employment protection and collective bargaining rights. Economically, labour markets became more inefficient at serving the long-term needs of employers, particularly in export industries. This is shown in two outcomes: changes in job tenure and in the demand for skilled labour in manufacturing. In stable regimes, average job tenures grew longer and demand by employers for skilled manufacturing workers grew higher, in line with the expectations of the social and economic effects of complementarities of VoC theory. By contrast, in unstable regimes, average job tenure either remained unchanged or became shorter, and demand for skilled manufacturing work was lower.

Conclusion
This article has discussed the dynamics of labour market reform in post-socialist Central and Eastern Europe, accounting for variation and change over time in levels of employment protection and collective bargaining across four cases: Bulgaria, the Czech Republic, Romania and Slovakia. At least two insights are to be gained from this analysis, the first relating to the mode of institutionalization of durable features of comparative capitalisms and the second to the political origins of institutional coordination and complementarity in the new capitalist democracies. On the first point, using insights from historical institutionalism, this article has shown that, rather than the decisive influence of transnational actors or neoliberal ideology, the political power of producer groups, and trade unions in particular, was key in shaping the key features of labour market institutions in post-socialist Central and Eastern Europe. Neoliberal backlashes emerged only in reaction to existing institutional settlements which instituted legislation protective of employment and granted strong collective bargaining rights to trade unions. Neoliberal backlashes succeeded in episodes of disembedded politics, enabled by
crises contexts and driven by the demands of indigenous neoliberal elites. In neither case was liberalization imposed from the outside; labour market liberalization was not demanded by IFIs nor a requisite for EU membership in the Slovak case in 2003, and the IMF did not mandate labour market liberalization as part of its loan conditionality in the Romanian case in 2009–10. In both cases it was domestic political actors who, under varied domestic political contexts, took advantage of the political opportunity to impose unilateral change to previous institutional settlements. This points to an important distinction from the mediational role for political parties presumed in the prevailing power-political approaches in comparative political economy, in which political parties serve primarily as ‘transmission belts’ for societal and, more precisely, organized economic interests. In the case of labour market reform, the turn to ideologically driven policy always took place in periods of severe economic and fiscal crisis. The contrast with Bulgaria and the Czech Republic after 2009 indicates that the existence of a polarized political environment under crisis conditions with high levels of political cohesion among incumbents is a key factor that explains the political success of neoliberal elites in Slovakia in 2002–3 and Romania in 2011.

In terms of emerging institutional complementarities described by VoC theory, the article adds support to arguments that the functional attributes of institutions which enable coordination are the result of political processes. Coordination is a political accomplishment (Streeck 2009). At the same time, institutional settlements that create the basis for coordination are achieved through political struggles and are not guaranteed to persevere. The experience of Central and Eastern Europe shows that such institutional settlements are much more vulnerable in polities with weakly institutionalized parties that give great scope to elite interests and enable them to sidestep organized economic interests in their choice of policy.

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Notes
1 I thank one of the journal’s anonymous reviewers for this formulation.
2 Though, as Malová and Marek (2005: 248) point out, the government had to temper some of its more radical plans to entirely abolish collective bargaining given the resistance of KOZ and the AZZZ.
3 According to data from Jelle Visser, AIAS-ICTWSS database.
5 Similar rules had been adopted in 2006, during Fico’s first term, but then reversed during the centre-right’s tenure in 2010.
The law requires that these discussions take place within particular time frames and presumes that employees are organized in a trade union or a collective. In other words, workplaces without employee representatives are left out of the legal protections provided by the law.

Due to space constraints, empirical data demonstrating these patterns has been removed from the manuscript and can be provided by the author upon request.

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