

TRADE UNIONS AND WELFARE REFORM IN CENTRAL AND EASTERN EUROPE

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1. Introduction

In various policy domains, the countries of Central and Eastern Europe (CEE) have experienced institutional transformations with intensity almost unknown to other countries. This undoubtedly holds true for the field of social policy as well. This paper is the first of a series of papers in which I try to explain the development of social policies in the CEE countries from a wide variety of domestic and international characteristics. In this paper, I focus on the role of civil society – more specifically the role of trade unions – in the reform of social policies in the countries of Central and Eastern Europe.

Trade unions are by far the largest organizations of civil society in the post-communist countries of Central and Eastern Europe. In most of these countries, after the fall of the communist regimes new trade unions have been created in addition to the –reformed– communist trade unions. Moreover, extensive institutional reforms regarding industrial relations have been implemented. A tripartite social dialogue in which general social economic topics are discussed, is now common practice in almost every country in Central and Eastern Europe (CEE). Trade unions have regained considerable power after the communist transition, although in all countries these unions are confronted with declining membership figures. Main reasons for this decline are the structural change in employment from industry (with a high level of unionization) to commercial services, and the rise of unemployment (unemployed usually do not join trade unions). Despite these general tendencies, quite some variation in the role and characteristics of trade unions between the CEE countries can be observed. This paper focuses on the effects of the variations in the role and characteristics of trade unions on social policy reform.

The early years of transformation in most Central and Eastern European countries brought economic crises unlike anything experienced under socialism. Inflation, unemployment and poverty created an urgent need for forms of social protection (Fultz, 2002: 1). The new governments' legitimacy depended to a large extent on its ability to provide adequate social policy in answer to these problems. The necessity to deal with the consequences of unemployment explains the introduction of unemployment and early retirement schemes in the CEE countries.

As the economies of the Central and Eastern European countries stabilized in the second half of the 1990s, virtually all governments set about the task of restructuring social security. The earlier emergency measures needed to be restructured because of the rising costs, and because of the necessity to adapt some features of the pretransition scheme to the new needs of people in market economies (Fultz, 2002: 1-2).

Whereas ‘third sector’ and ‘civil society’ are topics that draw a great deal of attention in the analysis of post-communist transitions, the role of trade unions is covered less extensively. This is surprising on two grounds. First, in all post-communist states trade unions are by far the largest organizations in civil society. Second, given the “twin demands of democratisation and marketisation in post-communist states and the position of unions as potentially important actors in both political and economic arenas, one would think they would be important players in the political economy of post communist reform” (Kubicek, 2002: 603). So in section 2, I start with a brief description of ‘civil society’ and will try to analyze to what extent trade unions fit in this general description. In section 3, assumptions on the role of trade unions in processes of welfare reform are formulated. Section 4 presents the characteristics of the trade unions in seven CEE countries. The selection of these countries is based on the date of their (prospective) EU-admittance. In section 5, the development of wages in these seven countries is analyzed. Section 6 describes a few topics that are situated ‘in the heart’ of most welfare reform processes: pension reform, employers’ and employees’ contributions to social insurances, and general social expenditures. Section 7 analyzes the impact of trade unions’ characteristics on these reforms. Finally, in section 8 I will end with some general remarks on the impact of European social policy on the development and reform of the welfare state in the CEE countries.

2. Trade unions as third sector organizations

Civil society is a dominant theme in post-communist politics. Civil society played an important role in bringing down communist regimes, and is meant to serve as a foundation for a new democratic order (Kubicek, 2002: 603). This expectation is based on the Tocquevillian conception of civil society as a social sphere distinct from the family, market and the state, and composed of interdependent, voluntary organizations and networks of citizens. By fostering values of citizenship, community and political participation among the population and by creating structures to prevent the emergence of authoritarian state power,

civil society positively contributes to democracy in transitional countries (Kubicek, 2002: 603).

An important theme in the growing literature on civil society, is the theme of the institutional factor that affect the relative strength of civil society in different countries. According to Kramer (1990: 260), no consistent set of factors has yet been identified which can explain the presence of nonprofit organizations in widely different countries - democratic and totalitarian, highly centralized or decentralized regimes, religiously heterogeneous or homogeneous, etc.; or the particular mix between government, the market, and nonprofit organizations in different fields of service. Nor have any theories been proposed to account for the origin, development, and change over time of the sector or its components in relation to government (Kramer, 1990: 260).

A general but simple line of argument that can be found in literature is that there is a non-profit sector because both state and market fail in providing collective, categorical goods and services. According to Kramer (1990: 256) certainly is right when he argues that the reasons why nonprofit organizations are responsible for performing certain activities can vary across countries: “Voluntary agencies are used by government because, as in the United Kingdom, the Local Authority Social Service Departments may not have appropriate, specialized or sufficient resources; or because, as in Holland, they are, for historical and religio-political reasons, the providers of first choice, or, for more pragmatic reasons, in the United States and Israel they may provide an economical, flexible services which is often a means of avoiding bureaucratic or budgetary constraints” (Kramer, 1990: 256).

However, at a general level, several institutional factors can be identified that seem to influence the development of third sector organizations in a country. According to Salamon and Anheier (1996: 9) three sets of factors seem to be especially important in shaping the scope and scale of the nonprofit sector in a country:

1. Heterogeneity. The existence of a nonprofit sector can be considered as a result of inherent limitations of both market and state in providing collective goods. Because of their collective nature, such goods are generally underproduced by the market system. According to classical economic theory, the existence of such collective goods explains why government is needed in a market economy. However, the more diverse the population, the more difficult it is for people to agree on what collective goods should be provided. The result will be unsatisfied demand for collective goods on the part of different segments of the population. The function of the nonprofit sector is to meet this

unsatisfied demand for collective goods. The greater the diversity of the population, the greater the size of the nonprofit sector (Salamon & Anheier, 1996: 9-10).

2. Scope of the welfare state. The greater the scope of the welfare state in a country, the less unsatisfied demand for collective goods remains. So the number of nonprofit sector organizations and project is expected to be lower in more elaborate welfare states.
3. Historical traditions. Various historical en religious traditions can encourage or discourage the formation of nonprofit sector organizations. For instance, in the Netherlands a strong tradition of subsidiarity growing out of Christian social thought has offered quite a hospitable climate for the growth of nonprofit institutions.

According to Johns (2002), trade unions are among the earliest manifestations of civil society, they are original NGOs. They exist as a collection of individuals trying to solve individual and collective problems. However, compared with some other civil society organizations, they have become incorporated in the system of government, and have become an inseparable part of the welfare state. Moreover, trade unions always face the dilemma of servicing their own members and contributing to the general interest.

Kubicek (2002) argues that trade unions' role in post-communist social policy making has been remarkably limited, given their previous role in helping bring down communist governments, their sheer size, and the socio-economic disaster that has accompanied the move to the market. However, it is important to take into account the differences between the various CEE countries with regard to the role in the transformation, their institutional position and their performance. It has been more or less common practice to refer to 'the CEE countries' as if no differences between these countries exist. Although these groups share a set of common characteristics – merely but not exclusively based on their shared communist past – there is considerable 'within group' variety as well. According to Orenstein and Wilkens, several classifications have been made (Orenstein and Wilkens, 2001). The Worldbank distinguishes between the 'European' category and the 'Eurasian' category. The European group includes East-Central European countries (Czech Republic, Estonia, Hungary, Poland, and Slovakia) and the and Slovenia), the more successful Balkan and former Yugoslav republics (Slovenia, Croatia, FYR Macedonia, Romania and Bulgaria) and the Baltic States (Lithuania, Latvia, and Estonia). The Eurasian group consists of the former Soviet Republics excluding the Baltic states and including Albania (Worldbank, 2000). According to Boeri, three groups of CEE countries can be distinguished, based on their likely date of accession in 2000: Group 1 (Czech Republic, Estonia, Hungary, Poland. and

Slovenia), Group 2 (Bulgaria, Latvia, Lithuania, Romania and the Slovak Republic), and Group 3 (Belarus, Russia, and Ukraine) (Boeri, 2000).

In 2004, this categorization seems somewhat outdated, but the date of admission to the European Union remains a good indicator of similarities and dissimilarities in the stage of a country's development. In this paper, I will focus on the role of trade unions in welfare reform in three groups of countries. The first group consists of the countries that have been admitted to the European Union on 1 May 2004. The second group represents countries that are scheduled to admit in 2007. The final group consists of countries for which no admission date has been scheduled yet. Out of the first group, three countries will be analyzed. Out of the second and third group, two countries will be analyzed. Therefore, this paper focuses on Czech Republic, Poland and Slovenia (group 1), Bulgaria and Romania (group 2), Croatia and Moldova (group 3).¹

3. Trade unions and welfare reform

In their book 'Varieties of Capitalism'. Hall and Soskice summarize the dominant perspective on trade unions' roles in welfare reform. They state that in the age of globalization, governments are "under increasing pressure from business to alter their regulatory frameworks so as to lower domestic labor costs, reduce rates of taxation, and expand internal markets via deregulation. What resistance there is to such steps will come from trade unions, seeking to protect the wages of their members (...). The precise effects that each nation suffers will thus be determined by the amount of political resistance that labor and the left can mount to proposals for change" (Hall and Soskice, 2001). In addition, Thelen (2001) states in the same volume that contemporary changes in the welfare state are considered as part of a universal move on the part of employers to deregulate labor relations. Cross-national differences in outcomes are attributed primarily to the differing capacities of unions to resist these changes. Thus, in the dominant perspective, trade unions are presumed to favor welfare state expansion and to try to block processes of welfare reform. Businesses and business associations are supposed to generally oppose welfare state expansion and support all reforms that cut back the welfare state (Hall and Soskice, 2001). With regard to the CEE

¹ In this paper it will become clear that for the third group hardly any comparable data are available. In a further stage of this project, this will be countered by the collection of original data in these countries. For this moment however, we will need to accept any missing data.

countries, for instance Kubicek (2002) takes this perspective. He states that (...) “unions are to put it mildly, another matter, groups that need to be beaten or subdued if democratic consolidation and marketisation are to have a chance” (Kubicek, 2002).

Following the ‘varieties of capitalism approach’, Thelen argues that recent trends in industrial relations and welfare state development are better captured by distinguishing different types of political-economic systems. To be able to understand trade unions’ roles in welfare reform, we need to explore the different institutional arrangements and behavioral logics for trade unions in different political-economic systems (Thelen, 2001). In a similar way, Mares (2001) criticizes the dominant perspective on the role of business in welfare state development and reform. She argues that business groups have played key roles in the development of social policy for over a century (Mares, 2001). Social policies can improve the operation of labor markets from the perspective of the firm. “Unemployment benefits with high replacement rates, for instance, can improve the ability of firms to attract and retain pools of labor with high or specific skills. Disability benefits and early retirement benefits can allow firms that operate production regimes requiring employee loyalty to release labor without violating implicit contracts about long-term employment” (Hall and Soskice, 2001).

In the ‘varieties of capitalism’ approach, the institutional history of political-economic systems is considered as an important feature of the ways these systems operate. However, what is striking about the CEE countries that take a central place in this paper, is that their institutional histories are comparable to a large extent. For almost half a century, they have been under communist regimes. After the spectacular break down of the Berlin Wall and the Iron Curtain, the countries of Central and Eastern Europe faced the enormous challenge of economic, technological, political and social transition. With respect to the social transition, the major challenge was to reform the old communist welfare states to the demands of the new, open economies. The communist welfare states consisted of the provision of highly subsidized prices on food, housing, transport and basic necessities, guaranteed employment, adequate health and education provision (Deacon, 2000).

Despite the common features of the developments in the CEE countries, quite some variation in the position of trade unions and – to a lesser extent – business associations, can be observed. In this paper, I will try to link the institutional differences regarding the role and position of trade unions to the variation in the development of the welfare states that can be observed. In the dominant perspective on trade unions’ roles in welfare reform, it would be sufficient to analyze the power base of trade unions and business associations in order to

explain the process of reform. However, in the more elaborate view that has been developed in this section, we also need to incorporate the general institutional system, the ideological background and the co-ordination mechanisms in our analysis. Following Brandl and Traxler (2004) four competing hypotheses regarding the relation between trade unions and the welfare state can be developed (Brandl and Traxler, 2004).

1. The *classical compensatory thesis* assumes that macroconcertation of policies requires a political exchange of obligations and gratifications between the actors involved. This means that the unions obtain compensation in terms of public welfare benefits in exchange for wage moderation. Thus, political exchange tends to moderate wages and to inflate welfare expenditures;
2. The *revised compensatory thesis* argues that successful social pacts combine the ability to moderate wages and to cut back the welfare state. Unions' compensations are side payments at best, like the expansion of active labor market policies, taxation, or institutional privileges. Negative incentives are also important, in particular the capacity of governments to threaten convincingly the unions' position in the political system;
3. The *additive thesis* suggests that wage increases, as fixed by the two sides of industry, may cause negative externalities (rising inflation and/or unemployment) on third parties. This becomes manifest in a fragmented bargaining system. The opposite, inclusive central bargaining, sets an incentive to moderate wage increases, such that possible adverse consequences in terms higher inflation, unemployment and taxation can be minimized. Decreasing welfare expenditures are considered as a by-product of wage moderation and thus add to its overall beneficial effects;
4. The *pressure thesis* relates the development of the welfare state to the strength of organized labor. The general assumption is that welfare expenditures tend to increase with the strength of organized labor.

In the remaining part of this paper, we will see to what extent one or more of these hypotheses apply to the relation between welfare reform and the position of trade unions in CEE countries.

4. The role of trade unions in CEE Countries

In this section, I will focus on the role of trade unions in seven Central and East European Countries. The information that is presented here, comes from existing sources. This also explains the limited information on Croatia and Moldova: it appears that little data for these

countries are available. In a further stage of this project, the analysis will be extended with own data.

The description of the role of trade unions focuses on three topics: a short description of the history of the labor movement in each of these countries, an analysis of the development of union membership and a short description of the bargaining process.

4.1 A short history of the labor movement in seven CEE Countries

In these qualitative descriptions of the role of trade unions in the selected countries, we are looking for variables that could determine differences in trade union performance. For each country, I will pay attention to the role of the former communist trade union, the role of the labor movement in bringing down the communist system and the relation between the new and the old trade union will be covered.

Bulgaria

Jones (1992) start his description of Bulgarian trade unions before World War II. “In the decade before World War II, the dictatorship of Tsar Boris III abolished independent trade unions in favor of a single, government-sponsored Bulgarian Workers’ Unions. Als Bulgaria emerged from the war under Soviet occupation, communists abolished that union and replaced it with a General Workers’ Professional Union. When capitalism was declared illegal in 1948, the Dimitrov government united thirteen unions under the Central Council of Trade Unions, which endured until 1989 as the single umbrella organization representing Bulgarian workers. In 1986 a New Labor Code was introduced which facilitated worker participation. Within enterprises, workers were organized into “brigades”, and both brigade leaders and enterprise directors were to be elected by workers. This development meant a –albeit minor – shift of power from the establishment (and its union-based structure) to the brigade” (Jones, 1992).

Almost a year before the fall of Zhivkov, the Independent Labor Federation, Podkrepa, organized as a white-collar opposition group inspired by the Polish Solidarity movement. When the communist regime was overthrown, the central council began restructuring the trade union system, declaring the organization independent of the Bulgarian Communist Party and renaming it the Confederation of Independent Trade Unions” (CITU) (US Library of Congress). In the early years after the transformation, CITUB was said to hold close ties to the communist party, although Jones (1992) argues rightfully that on many occasions

CITUB acted independently. However, it was a general strike issued by Prodkrepa that, in November 1990, led to the fall of the socialist government of Lubanov that had received a mandate in the first free elections of 1990 (Jones, 1992).

A coalition government led by Popov succeeded the Lubanov government. This government was formed in response to international, IMF-led pressure for decisive economic reforms. Popov's government meant a broadened role for the trade unions and the beginning of tripartism in Bulgaria. "Its crowning achievement was the conclusion of the Agreement on Social Peace in January 1991, in which trade unions accepted a 30 percent wage cut in exchange for improved wage indexation and the institutionalization of a tripartite body (Zic, 1998). The relations between CITUB and Podkrepa, the two main trade unions, and their relations with the political parties and successive governments in the subsequent period were complex and chaotic. According to Zic, "during Bulgaria's turbulent years of postcommunist transition, the country's trade unions became major actors on the national political scene, which was polarized between political parties not capable of offering the nation a coherent and consistent program of political and economic transition. The unions, despite a deep mutual distrust and frequent failure to cooperate, acted decisively to break political stalemates and push ineffective governments out of office. The unions stood in staunch defense of the more narrow socioeconomic interests of their constituencies, but showed ample capability to moderate their demands in support of the stabilization and austerity policies of various governments. The unions acted with a reasonable amount of caution and restraint, showing a willingness to give new governments a chance before launching major protests in response to failing policies. The unions demonstrated general support for needed economic reforms, realizing that only comprehensive change can bring about a more fundamental improvement for the country" (Zic, 1998).

However, the political landscape in Bulgaria remains dynamic and chaotic. The 2001 election were a landslide electoral victory for the party of the former Bulgarian monarch Simeon II (Vassilev, 2004). In the autumn of 2003, CITUB and CL Podkrepa held a series of regional protest meetings and, together with their sectoral organisations, called a national protest demonstration against the economic and social policy of the government led by Simeon II. More than 17,000 people expressed their dissatisfaction with the government and asked for the resignation of the cabinet. According to the organizers, this was the largest protest held by the two trade union confederations since the winter of 1996. This demonstrates the ongoing concern of the Bulgarian trade unions with matters of general economic and social policy, despite the falling membership figures as demonstrated in table 1 (Neykov, 2004).

Table 1 Trade unions in Bulgaria

	1993	1998	2003	Change 1993-2003
CITUB	1,426,000	608,000	390,000	-72.7%
CL Podkrepa	500,000	155,000	109,000	-78.2%
Other trade unions	266.000	15.000	11.000	-95.9%

Source: (Carley, 2003)

Czech Republic

According to Cook (1995), labor relation in the Czech Republic after the fall of communism have been less conflict-ridden – and unions less influential – than in most other CEE countries. In 1990, a reformed union (CSKOS) succeeded the official communist trade unions (Cook, 1995). The CSKOS retained the communist trade unions' property and membership rolls, which included 80% of the workforce. The CSKOS split up in December 1992, leaving in the Czech Republic the Bohemian and Moravian Chamber of Trade Unions. “Both before and after the breakup, the Czech unions have pursued a conciliatory strategy, bargaining successfully for an ILO-crafted labor code and engaging in trilateral negotiations on wage levels, labor market policy, and so on” (Cook, 1995). Cook also argues that labor relations have been relatively peaceful in the Czech Republic partly because the costs of reform have been comparatively low.

Moreover, Myant and Smith (1999) argue that the Czech trade union have failed to adapt to the changed environment. According to them, there is a mismatch between a vision of a unified union movement playing an active role in society, and a structure in which great power is given to local organizations that are locked into providing the same services as before 1989 and into bargaining over a relatively narrow agenda. This has left Czech unions even more vulnerable to a changing environment than trade unions in other countries (Myant and Smith, 1999).

Moldova

The Republic of Moldova occupies most of what has been known as Bessarabia. Moldova's location has made it a historic passageway between Asia and southern Europe as well as the victim of frequent warfare. Greeks, Romans, Huns, and Bulgars invaded the area, which in the 13th century became part of the Mongol empire. An independent Moldovan state emerged briefly in the 14th century under celebrated leader Stefan the Great, but subsequently fell under Ottoman Turkish rule in the 16th century.

In 1940, Romania was forced to cede eastern Moldova to the U.S.S.R., which established the Moldavian Soviet Socialist Republic by merging the autonomous republic east of the Dniester and the annexed Bessarabian portion. Romania sought to regain it by joining with Germany in the 1941 attack on the U.S.S.R. Moldova was ceded back to Moscow when hostilities between the U.S.S.R. and Romania ceased at the end of World War II. The present boundary between Moldova and Romania was established in 1947. Moldova declared independence from the Soviet Union on August 27, 1991.

Widespread popular dissatisfaction with the government and the economy, however, led to a surprise at the polls, in February 2001. In elections certified by international observers as free and fair, Moldova's populace voted overwhelmingly for the communists. The communist faction, which had consisted of 40 of Parliament's 101 seats, jumped to 71--a clear majority. Communist deputies were then able to elect as president Vladimir Voronin, the leader of their faction. Since election, President Voronin has proceeded with President Lucinschi's plans to privatize several important state-owned industries, and has even on occasion broken with his own party over important issues.

Until 2000, the economic situation has been characterised by extreme poverty and a very difficult social situation with problems similar to those of developing countries. Some 800,000 Moldovans have left the country, most of them coming from the countryside. Moldova made steady progress on economic reform in 2001. The macroeconomic situation continued to be strong after showing dramatic improvement in 2000. Moldova, however, continued to depend on foreign sources, particularly for its energy need.

A 1990 Soviet law and a 1991 Parliamentary decision authorizing formation of social organizations provide for independent trade unions. The General Federation of Trade Unions succeeded the Soviet trade union system upon Moldovan independence. In late 2000, the union split. The Trade Union Confederation of Moldova (TUCM), successor to the previous federation, retained 80% of the union members in Moldova, and primarily represents agriculture and agricultural processing sector, public services, radio electronics, medicine, education, and culture. "Solidaritate" (solidarity), a new organization, includes the remaining 20% of unionized workers from industry, transport, telecommunication, construction, and social protection. The unions have tried to influence government policy in labor issues and been critical of many economic policies. Moldovan labor law, which is based on former Soviet legislation, provides for collective bargaining rights.

Poland

“Prior to 1980, nearly all employees of state enterprises belonged to trade unions. Poland, in a similar way to other countries of the Soviet bloc, had only one trade union center: The Central Council of Trade Unions (CRZZ). Following to major strikes in the Gdansk shipyard in August 1980, the Polish trade union movement was transformed to a large extent. The government gave its assent to the existence of independent trade unions, which contributed to the establishment of NSZZ Solidarnosc, which at least 7 million workers joined. Solidarnosc, led by Lech Walesa, was more of a social movement standing in opposition to the ruling regime than a trade union” (Gardawski, 2002).

After the announcement of martial law in Poland in December 1981, all trade unions ceased to exist. In October 1982, the government adopted an act allowing for the creation of new trade unions loyal to the ruling authorities. Unlike the other countries of the Soviet bloc, these trade unions in Poland were of an autonomous character, with federal features. In January 1984, these new trade unions established a new centre, All-Poland Alliance of Trade Unions (OPZZ), assembling over 100 federations. Apart from OPZZ there was an underground 'Solidarnosc' organisation, whose membership level was hard to assess.

In January 1989, 'Solidarnosc' was legalised and, in February 1989, negotiations with the government began at a 'round table'. In the course of these negotiations, 'Solidarnosc' called for the introduction of a social market economy, socialisation (though not privatisation) of large enterprises, and an extension of workers' 'self-government' rights. In August 1989, Poland's first non-communist government was established. The new government, recruited from 'Solidarnosc', abandoned its former plans for a liberal programme to create a privatised market economy. 'Solidarnosc' adopted a new programme of protecting the government's reform programme (it started to play a role of a 'protective umbrella' for the reforms). The leader of 'Solidarnosc', Lech Walesa, and his close colleagues declared that the reborn 'Solidarnosc' should not increase its membership, as a large union centre assembling industrial workers could hamper the programme of indispensable reforms. This statement shocked many workers and, to a certain extent, discouraged them from joining 'Solidarnosc' during the first stage of economic and political transformation” (Gardawski, 2002).

As in other European countries, in the years after the fall of communism, Polish trade unions experience a sharp decline of union membership, primarily caused by a sharp drop in employment in those branches of industry, which traditionally had the highest number of trade unionists (mining, metalworking, the machine industry etc). According to Gardawski,

erosion in Poland has been even more extensive than in other CEE countries. “Paradoxically, the great force and authority of the 'Solidarnosc' trade union, which fought the previous autocratic regime in order to introduce a market economy and restore democracy, has turned out to be a factor which has decreased trade union density among Polish workers. At the same time, it has become evident that not only Polish private employers, but also the majority of managers, have unfavourable views on trade unions. On the other hand, the trade unions themselves have concentrated more on the political aspects of their activity (such as reforming the country, supporting ruling coalitions and participating in parliamentary elections) than on the trade union aspect. They have let their prestige drop, both in the eyes of the workers in general and of their own members” (Gardamski, 2002). Table 2 gives an overview of the membership of the most important trade unions in Poland in the period 1993-2003.

Table 2 Trade unions in Poland

	1993	1998	2003	
OPZZ	4,500,000	2,000,000	800,000	-82.2%
NSZZ	2,000,000	1,200,000	780,000	-61.0%
Solidarność				
FZZ	-	-	320,000	-

Source: Carley, 2004

Romania

As in some other CEE countries, the Romanian trade union movement has long traditions, with its official birth being marked by the foundation of the General Association of Workers in 1872. When the communist regime was installed after World War II, trade unions continued to exist. However, they became part of the apparatus of the ruling party and were centralised under the General Union of Trade Unions in Romania (UGSR) (Preda, 2003). In the first year after the Ceausescu regime was overthrown, the end of the UGSR monopoly lead to a proliferation of new trade unions. It became common to have several trade unions with diverging orientations represented in the same company. The introduction of the Trade Unions Law in 1991 initiated a process of unifying trade unions into federations and confederations. A stronger participation of trade unions in decision-making process in general also occurred, including on matters of major importance for the future of the economy and society as a whole. (Preda, 2003).

In the late 1990's and early 200's Romanian trade unions are confronted with declining memberships, partly caused by a general trend seen in all countries, partly because of the failure to contribute to the solution of the problems of Romanian economy, of which low living standards are the most prominent. Table 3 illustrates the membership developments of trade unions in Romania.

Table 3 Trade unions in Romania

	1993	1998	2003	Change 1993-2003
Meridian	40,000	450,000	1,500,000	+3,650.0%
Cartel Alfa	1,200,000	1,100,000	1,000,000	-16.7%
CNSLR	1,284,000	856,000	798,000	-37.9%
CSDR	650,000	650,000	650,000	0
BNS	nd	nd	421,000	-
Others	150,000	40,000	30,000	-80.0%

Slovenia

In Slovenia, trade unions and industrial relations began to develop quite early, at the beginning of the process of industrialisation. This process in Slovenia was stronger and began earlier than elsewhere in the area which made up the former Yugoslavia. At the beginning, trade unions had an educational and 'self-help' character, but they quickly took on a proper trade union role by fighting for better wages and working conditions. After the First World War and the collapse of the Austro-Hungarian empire, Slovenia became part of the Kingdom of Yugoslavia. The trade unions kept their position and developed further. (Skledar, 2002).

After the second World War, democratic trade unions ceased to exist in Slovenia, which was now part of the Federal People's Republic of Yugoslavia. The Yugoslav trade union movement was not independent from the party, the state, and managers. It was organized in a centralised way, with mandatory membership. However, it is important to note that the former Yugoslavia was never part of the eastern bloc (Comecon, Warsaw Pact). Moreover, Slovenia was relatively independent from Belgrade (Skledar, 2002). As a consequence, firms were more independent than in other countries, and from the 1960's, the Slovene trade union organization (which was a decentralized department of the Yugoslav trade union organization) had some autonomy and had contacts with trade unions from neighboring countries. As a sign of the growing autonomy and power of the trade union, in the second half of the 1980's some large-scale strikes occurred. After the period of trade union

‘unitarism’ under the socialist regime, in the early 1990’s trade union pluralism began to develop. In 2002, the Union of Free Trade Unions of Slovenia (ZSSS) is the largest trade union by far. It is a reformed organization, originating in the Slovene section of the former Yugoslav trade unions. It leans to the left of the political spectrum, and represents almost half of trade union members (EIRO, 2004; Skledar, 2002). KNSS (Independence, Confederation of New Trade Unions of Slovenia) represents about 10% of the labour unions. It was set up since the change of regime, and operates on the right of the political spectrum. In 2002 there were several other, smaller trade unions, some of which were split from ZSSS. No data are available for the period before 2003, but membership of Slovenia trade unions in 2003 is presented in table 4.

Table 4 Trade unions in Slovenia

	2003
ZSSS	180,000
KNSS	15,000
Pergam	15,000
Konfederacija '90	10,000
Others	140,000

Source: Carley, 2004

4.2 Union density in seven CEE Countries

As in other countries, union density shows a declining trend in the countries of Central and Eastern Europe as well. From a virtual 100% under the communist regimes, union density has dropped dramatically. However, we still can observe quite some variation between the CEE countries as well. According to Svejnar (2002), average union density in the CEE countries is estimated at 49%, which is somewhat higher than the EU average of 44 percent and the OECD average of 40%.

As we can see from table 5, since 1990 the number of trade-union members in the post-communist states have fallen considerably, despite – as we saw in the above section – the reform of the former Communist employee associations and the founding of new trade unions. The primary explanation for this is the revocation of the usual obligation in communist countries to belong to a union. The increasing level of unemployment also serves as an explanation for this (Funk and Lesch, 2004).

Table 5 Union density in seven CEE countries

	1990 ¹	1995 ¹	2002 ²
Bulgaria	61,9 % (1991)	51,4 % (1993)	20-29 % ⁴
Croatia			47 % ⁶
Czech Republic	76,8 %	36,3 %	30,0 % ³
Moldova			38 % ⁷ (2000)
Poland	47,1 % (1989)	27,0 %	15,0 % ³
Romania	50,7 % (1991)	40,7 % (1993)	44 % ⁵
Slovenia			41,3 % ³

1. Source: (ILO, 1997). Union membership as a percentage of non-agricultural labour force.

2. These figures are considered as rough indicators because of methodological problems. These figures are based on national data and may be based on different definitions in terms of the union members included (eg whether or not retired or inactive members are counted) and the measure of employment used (Carley, 2003)).

3. Source: (Carley, 2003).

4. Source: (EIRO, 2004)

5. Source: (EIRO, 2003)

6. Source: (Petrovic, 2002)

7. Estimation based on (Munteanu, 2002).

4.3 Institutional position of trade unions

The institutional position of trade unions on the one hand depends on the constellation of trade unions and business association in a specific country, and the formal position regarding collective bargaining and social dialogue. In section 4.1 I have described the development and current situation of trade unions in the seven CEE countries that take a central place in this paper. In table 6 the number of trade unions and employers' associations is presented. As we saw in section 3, in general we could argue that fragmented systems of industrial relations tend to lead to higher wages and higher welfare expenditures because this limits the possibilities of trade-offs. However, the ideological distance between trade unions and

employers' associations within a country are important as well, because this too can prevent the creation of central agreements.

Table 6 Number of trade unions in 7 CEE countries

Country ¹	Number of the most important	
	Trade unions	Employers' associations
Bulgaria	2	2
Croatia		
Czech Republic	5	2
Moldova	2	
Poland	2	2
Romania	5	8
Slovenia	4	2

Sources: (Carley, 2003; Funk and Lesch, 2004)

In addition to the constellation of trade unions and employers' organizations, the institutional framework in which negotiations take place also is of crucial importance for the role labor unions play in welfare reform. Commonly, wage bargaining level and the coverage of collective agreements are considered as indicators for the institutional position of the labor movement that affect labor unions' possibilities to influence welfare reform. Table 7 illustrates the bargaining levels and number of employees covered by collective agreements in the seven countries.

Table 7 Wage bargaining levels in seven CEE countries

	Importance of wage bargaining level			Employees covered by collective agreement
	Inter-sectoral	Sectoral	Company	
Bulgaria	None	weak	dominant	40
Croatia				
Czech Republic	None	weak	dominant	25-30
Moldova				
Poland	None	weak	dominant	40
Romania	None	weak	dominant	
Slovenia	Dominant	important	weak	100

Source: (Funk and Lesch, 2004)

5. Wage developments

In order to be able to confirm or reject the assumptions on the relation between trade unions' positions, wage developments and welfare state development, in the remaining part of this paper I will focus on wage development and welfare reform. Figure 1 shows the wage development in the seven CEE countries. These indexed wage developments illustrate the common development of wages in the CEE countries: after the fall of the communist regimes in 1990, all countries have experienced a decrease in real wages. In the more successful countries, this decline came to an end in the second half of the 1990's, whereas the wage levels in Romania, Bulgaria and Moldova are still way below the level of 1990. For Croatia, data are only available from 1995. The fact that 1995 is the index year for Croatia largely explains the apparently spectacular real wage developments in Croatia, as 1995 was the bottom year for most CEE countries.

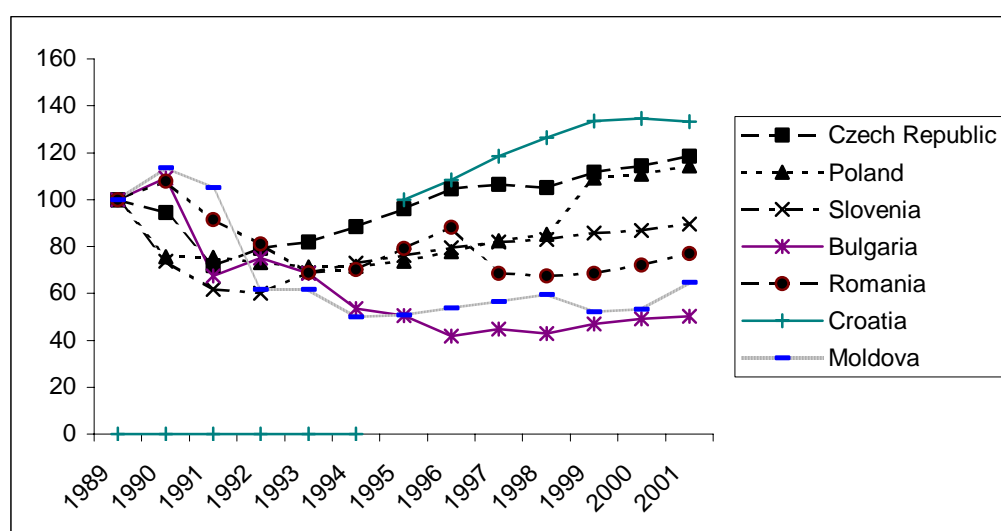


Figure 1 Wage developments

Source: Unicef Transmonee Database, 2004

Although figure 1 only provides a rough description of real wage developments in the seven CEE countries, it can be helpful in assessing the hypotheses that have been developed in section three. It shows that wage increases in Croatia, the Czech Republic and Poland have been high in comparison with the other countries, wage developments in Slovenia and Romania can be considered as average, whereas wage increases in Moldova and Bulgaria are low.

6. Welfare reform in CEE Countries

After we have dealt with the position of labor unions and wage developments in the seven CEE countries that take a central position in this paper, in this section I will analyze the developments of the welfare state in those countries in recent years. In order to stay close to the intentions of this paper – assessing the role of labor unions in welfare reform – I will focus on three topics in which interests of government, trade unions and business associations tend to diverge considerably: pension age (section 6.1), employers' and employees' benefits to social insurances (section 6.2) and social expenditures (section 6.3).

6.1 Pension reform

According to Muller (2003), during the decades of socialist rule, retirement schemes in CEE countries were organized along similar lines. “The central policy measure was the creation of a unified pension scheme integrated to the state budget. (...) As a rule, the legal pension age was 60 for men and 55 for women; while the effective retirement age was several years lower”. Economic transformations affected the existing pension schemes in CEE countries in several ways. Firstly, “price liberalization and the curtailment of subsidies on basic goods and services required a shift from indirect to direct transfers, resulting in rising expenditure for old-age security. At a later stage, the restructuring of the state-owned enterprises had an effect on both the revenue and the expenditure side of public pension schemes”. Disability pensions and early retirement benefits were used to counter and disguise the employment effects of structural adjustment. Rising costs, an increased number of pensioners and a falling number of contributors resulted in a destabilization of pension finances.

Because of these developments, a reform of the pension system was inevitable. Quite some variety in the design of these reforms can be observed, although all reforms share one common feature: a move from a universalist-redistributive heritage to strongly differentiated, earnings-related benefits, with an emphasis on contributory financing. To be able to compare the pension reforms between the seven countries, in this paper I concentrate on pension age. Of course the pension age is not the only topic in which reforms can be observed the last years. For instance, various post-communist countries have introduced mandatory second tier, supplementary pension schemes in addition to the first tier, basic old age protection. However, these reforms heavily depend on the way the old pension system was organized. A thorough understanding of the policy preferences of trade unions and business associations therefore require in-depth knowledge of the pension schemes in the different countries.

Moreover, the variety in pension schemes hinders a comparison between countries. The topic of retirement age illustrates most clearly the differences between the seven countries.

Table 8 Pension reforms

Country	Pre-reform retirement age		Year of change	Final retirement age (year when this will be realized)	
	Men	Women		Men	Women
Bulgaria ¹	60	55	2000	63 (2005)	60 (2009)
Croatia ⁵	60	55	1998	65 (2008)	60 (2008)
Czech Republic ¹	60	53-57 ⁴	1996	62 (2006)	57-61 (2006)
Moldova ⁵	60	55	1998	62	57
Poland ¹	65	60	1999 ²		
Romania ¹	62	57	2001	65 (2015)	60 (2015)
Slovenia ¹	60 (58 ³)	55 (53 ³)	1999	63 (58 ³) (2000)	61 (58 ³) (2000)

¹ Source: (European Commission, 2003)

² Statutory retirement age in principle unchanged, but before 1999 there were many exceptions (lower retirement ages for specific groups)

³ Earliest possible age with 40 years of service (for men) or 35 years (for women; after the 1999 reform 38 years)

⁴ Depends on number of children

⁵ Source: <http://www.ssa.gov/policy/docs/progdesc/ssptw/>

Table 8 shows that all countries have adjusted their pension age except Poland. In Poland, retirement age was at the common level of 65 for men already. Of course, it's not easy to draw conclusion on the intensity of this reform only based on this table. However, what is striking is that some countries – most strikingly Romania, but also Croatia - have chosen for a slow increase of the retirement age to 65, whereas retirement age in other countries stays well below the level of 65 that is common in Western Europe. For the sake of the argument, we can state that pension age reform in Poland and Croatia have been high, in Romania, Bulgaria and Slovenia moderate, and in the Czech Republic and Moldova low to moderate.

6.2 Contributions to social insurance

As has been stated in the previous section, retirement age of course is just a small topic in the wider environment of welfare reform. Therefore, the second topic in this analysis of welfare reform focuses on the wider subject of employers' and employees' contributions to

social insurances. Like the pension age – or perhaps even more than the pension age – the issue of employers’ contributions contain a fundamental difference of interest between trade unions and employers. It is hard to get track of comparable data for social partners’ contributions to social insurances. The data that are most easy to compare cover the contributions to old-age benefits, disability benefits and survivor benefits.

Table 9 Employers’ and employees’ contributions to social insurance

Country ¹	Employers contributions ³		Employee contributions ⁴	
	1999	2002	1999	2002
Bulgaria	37 %	7,25 %	1%	21,75 %
Croatia	10,75 %	5,75%	10,75%	13,75 % ⁷
Czech Republic	19.5 %	6,5 %	19.5 %	6,5 %
Moldova	38 % ⁵ 30 % ⁶	29 % ⁵ 30 % ⁶	1%	1%
Poland	16,26 %	16,26 %	16,26 %	16,26 %
Romania	23, 28 or 33 % ²	25, 30 or 35% ²	5%	11,67 % ⁸
Slovenia	8,85 % (average)	15,5 % (average)	8,85 % (average)	15,5 % (average)

¹ Source: Social Security Programs Throughout the World, 1999 & 2002

² Depending on working conditions

³ % of payroll

⁴ % of earnings

⁵ Agriculture and industry

⁶ State budget supported organizations

⁷ For employers under 50, consists of basic pension (8,75 %) and contribution to individual account (5%). For employers over 50, the contribution remains 10,75%.

⁸ Source: Ministry of Labor, Romania

To be able to assess the role of trade unions, three situations can be distinguished: a situation in which employers’ and employees’ contributions are in balance, a situation in which employers’ contributions exceed employees’ contributions, and the opposite situation. In 2002, in Bulgaria and Croatia employees’ contributions exceed employers’ contributions. In Poland and Slovenia, the contributions are in balance, in the remaining countries, employers’ contributions exceed employees’ contributions. We could argue that a high level of employers’ contributions together with low employee contributions indicates a strong position of the trade union, whereas the opposite situation indicates a weak position of trade unions.

6.3 Social expenditures

As we have seen in section 3, several hypotheses can be developed regarding trade unions' positions on social expenditures and wage policy. In this section, I will focus on social expenditures. Figure 2 shows the share of (central and local) government expenditures that goes to social protection.² Three categories can be distinguished. The first group are the countries with social expenditures (slightly) above 40%: Poland and Slovenia. The second, average group consists of countries with social expenditures between 30 and 40%: Bulgaria, Croatia, the Czech Republic and Moldova. Finally, in Romania social expenditures are low.

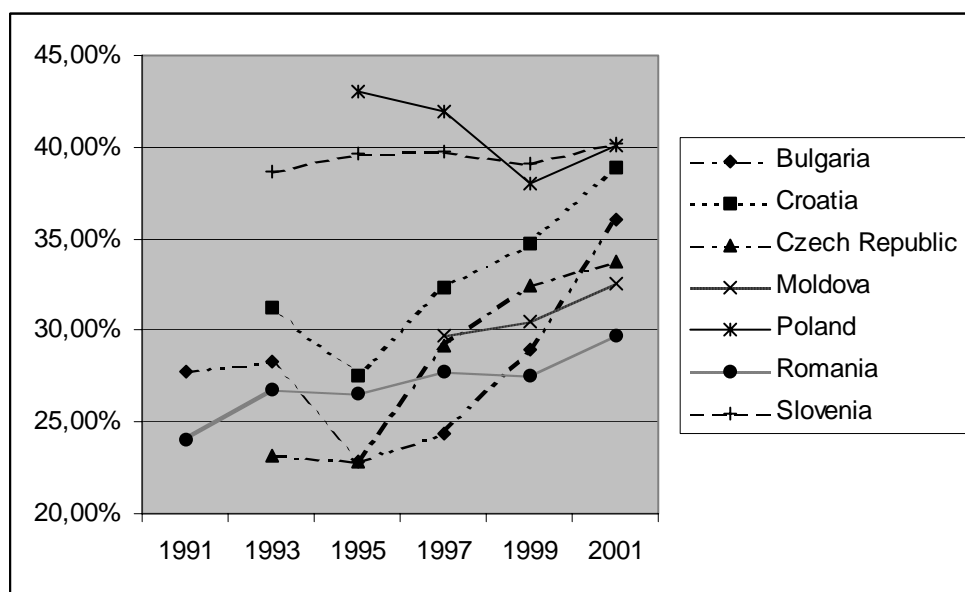


Figure 2 Social expenditures in seven CEE countries

However, we cannot see the level of social expenditures apart from the trend in social expenditures, so for a complete picture we need to take into account the underlying trend as well. Table 10 gives an overview of the level and trends in social expenditures in the seven CEE countries that take a central place in this paper.

² Note that these percentages refer to governments' social expenditures as a share of total governments' expenditures. A measure that is commonly used for OECD countries is social expenditures as a share of GDP. This measure is not available for most CEE countries.

Table10 Level and trends in social expenditures

	Level	Trend
Bulgaria	Average	Increasing
Croatia	Average	Increasing
Czech Republic	Average	Stabilizing
Moldova	Average	Increasing
Poland	High	Increasing after decrease
Romania	Low	Slowly increasing
Slovenia	High	Stabilizing

7. Analysis

In section 3, the following four hypotheses have been formulated:

1. The *classical compensatory thesis*, which assumes moderation of wages and inflation of welfare expenditures;
2. The *revised compensatory thesis* argues that successful social pacts combine the ability to moderate wages and to cut back the welfare state;
3. The *additive thesis* considers decreasing welfare expenditures as a by-product of wage moderation and thus add to its overall beneficial effects;
4. The *pressure thesis* relates the development of the welfare state to the strength of organized labor. The general assumption is that welfare expenditures tend to increase with the strength of organized labor.

In order to be able to answer the hypotheses that have been formulated in section three, I have tried to condensate the information in the previous sections into a few key characteristics on the reform in the seven countries. This inevitably leads to a loss of detailed information. However, I believe that table 11 in a nutshell represents the characteristics of the welfare reforms in the seven countries that have taken a central place in this paper.

Table 11 Overview of welfare reforms

	Bulgaria	Croatia	Czech Republic	Moldova	Poland	Romania	Slovenia
Retirement age reform	Moderate	High	Low to moderate	Low to moderate	High	Moderate	Moderate
Distribution of social insurance contributions	Higher share for employees	Higher sharer for employees	Higher share for employers	Higher share for employers	Balanced	Higher share for employers	Balanced
Social expenditures	Average	Average	Average	Low	High	Low	High
Trend in social expenditures	Increasing	Increasing	Stabilizing	Increasing	Increasing after period of decline	Slowly increasing	Stabilizing
Wage development	Low	High	High	Low	High	Average	Average

To be able to draw some conclusion about trade unions' role in reform processes, we need to connect these characteristics to the key characteristics of the trade unions in the seven countries. Table 12 gives a short overview of the role and positions of trade unions, based on the descriptions in section four.

Table 12 Characteristics of trade unions

	Dominancy of former communist trade union	Role of trade union(s) in overthrowing communist regime	Level of fragmentation	Unions density	Institutional position
Bulgaria	Yes	Yes	Low	Low	Weak
Croatia				Average	
Czech Republic	Yes	No	High	Low	Weak
Moldova	Yes	No	Low	Low	
Poland	No	Yes	Low	Low	Weak
Romania	No	No	High	Average	Weak
Slovenia	Yes	No	Low	Average	Strong

At first sight, it's hard to connect the seven countries with one of the hypotheses. There is a wide variety in wage developments, welfare reform processes and institutional position of trade unions. Starting with the countries in which wages and wage increases are low, two situations are possible. Low wages can be compensated with little or moderate cutbacks of the welfare state (hypothesis 1), or low wages and low wage increases can be connected in a social pact with intensive reforms of the welfare state (hypotheses 2). Although there is not a perfect match, it seems that the two countries with low wage developments – Bulgaria and Moldova - are also characterized by moderate cutbacks of the welfare state and increasing social expenditures, which fits within the classical compensatory thesis. Also Romania, with wage increases on average level, can be said to fit within the classical compensatory thesis.

Based on the characteristics of trade unions' roles, we would expect the pressure thesis to represent the Slovenian situation. This however is not the case. With stabilizing welfare expenditures and average wage increases, Slovenia much better fits within the revised compensatory thesis.

For the other countries, it's almost impossible to fit them within one of the hypotheses. Our reform hypotheses have been developed for western countries, apparently they are not prepared for situations in which wage levels have fallen dramatically in recent years. What we can see in all countries except Slovenia is a minimal position of trade unions in collective bargaining and dramatic declines in wages in the last decade. Wage moderations – which play a key role in reform processes in most Western European countries – are not yet used as a source of power in negotiations on processes of reform. Trade unions' weak positions in wage bargaining in almost all countries prevent this.

Therefore the first conclusion of this must be that the role of trade unions in processes of welfare reform in CEE countries differs significantly from that in other countries, because trade unions do not have the power resource of 'wage moderation' at their disposal.

Moreover, trade unions' weak position in almost all countries make it impossible to attribute variations in the processes and intensity of reform to the role and position of trade unions in a specific country. A more in-depth analysis of the ideology and strategy of trade unions is required to assess the impact of trade unions in reform processes. However, a few conclusions can be drawn on the impact trade unions positions.

Firstly, the reform processes in countries in which the former communist labor organization play a central role do not differ significantly of the other countries. The same holds true for countries in which an opposition trade union played a central role in overthrowing the communist regime. And finally, also the existence of a fragmented system of trade unions appear not to lead to significant difference in the reform process. Probably the minimal impact of differences in structural characteristics can be traced back to the weak position of

trade unions. Therefore, we also do not find ammunition for the critics that trade unions prevent welfare reform.

8. Reflection

This paper is the first step in a research project on the impact of European social policy on welfare reform in the CEE countries. The role and position of trade unions are domestic characteristics that could account for variations in reform processes. This paper shows that the trade unions' weak position in almost every CEE country make it unlikely that trade unions characteristics explain variety in reform processes.

With regard to the more general research question on the impact of European social policy on reform processes, a first conclusion is that variety in economic performance and admission date explains variations in the intensity and processes of welfare reform to a certain level. An important theme in the analysis of European social policy is the issue of congruence between EU member states in social policy. Opinions differ on the matter whether or not Europeanization leads to congruence in social policies. With regard to this topic, a distinction must be made between direct influence from Brussels through European directions and guidelines, and indirect influence from Brussels. In a further stage of this project, I will focus on this influence from Brussels. For the moment however, at first sight we can conclude that social policies in the countries of which the economic performance and general life standard differ most from the EU average, seem to converge to the level of the other CEE countries. In-depth analysis of the reform processes is required to assess this thesis, but it could mean a contribution to the continuing dispute in literature on the causes of welfare reform.

Although there is no formal social policy at the European level, some initiatives that are based on the Lisbon Agenda in which the EU formulated the strategic goal of becoming the most competitive economy in the world while safeguarding an acceptable level of social protection, have significant impact on the development of European social policy. One of the examples of this is the required involvement of social partners in developing National Action Plans on Employment Policy. Without doubt, this will lead to an improvement of trade unions positions in the countries that are or will become EU member states.

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