THE COMPOSITION OF THE LABOUR FORCE IN CEECs AND LABOUR RELATIONS

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Introduction and summary

Heikki Aintila

In 1990, the ETUI began to extend its activities into Central and Eastern Europe and developed an informal network of relationships with trade union research institutes in the CEECs. This network was formalised when funding was received from the EU Phare Democracy Programme in 1992. This project included 12 partner-organisations from nine Central and Eastern European countries (see *TRANSFER* volume 1, number 1, pp. 135-136; results are published in the ETUI report no. 54: *Labour markets, wages and social security in Central and Eastern Europe)*. This year, the ETUI arranged a workshop in close co-operation with the ILO's Budapest Office (ILO-CEET) and the Hans Böckler Foundation in Lake Balaton (Hungary), on 6 - 7 September 1995. The title of the workshop was "The Composition of the Labour Force in CEECs and Labour Relations". The main themes of the workshop were direct investments, the informal sector and privatisation in the CEECs and their consequences for labour markets, industrial relations and social developments. The final part of the workshop was given over to a discussion of a medium-term working plan, future meetings and widening of the research network.

Direct investments in the CEECs

According to Hübner (FU Berlin, Germany), foreign direct investment (FDI) is a marriage between an investor's firm-specific advantages and a host country's site-specific advantages. The site-specific advantages of the Central and Eastern Europe countries (CEECs) are, firstly, that, given the improved level of labour productivity, real wages are comparatively low. Secondly, all the governments in the CEECs have new legislation concerning foreign direct investment. Thirdly, these site-specific advantages are used by the most mobile and cost-conscious types of enterprises.

Compared with the early very optimistic hopes, the actual amount of foreign direct investment in 1994 appears disappointing. The overall stock of the eight most important host countries for FDI amounts to $17.8 billion. Most of these investments have gone to Hungary, Poland, Russia and the Czech Republic.

The hidden economy and the trade unions

Ildiko Ékes (Research Institute for Economic and Social Studies of the Hungarian Trade Unions) maintains that there is no consensus on the contents of the hidden economy. Depending on what forms of activity are referred to, the estimates on its volume differ. According to UN criteria, the hidden economy includes activities connected with crime and those activities of legal enterprises which are illegal because they constitute tax evasion. In Hungary, there are no regular estimates on the volume of the black economy. According to some estimates, the size of the hidden economy was 23 - 26% of the GDP in 1991-92. Due to the tax evasion and inflation the hidden economy is constantly growing.

The hidden economy can cause problems for the trade unions. First, it creates unfair competition for the legally operating and tax-paying enterprises. This can cause unemployment. Secondly, the hidden economy decreases the tax income of the public sector. Thirdly, the workers in the hidden economy are defenceless and the unions cannot support them.

Privatisation in the CEE Countries

According to Heikki Aintila (ETUI), the transition process includes three main components: macro-economic stabilisation; liberalisation; and institutional reforms, especially privatisation. Privatisation can be defined as the transfer of ownership from the public to the private sector. However, privatisation has an important and central role in the process of transforming the CEECs into decentralised market economies.

Privatisation policy choices involve several dimensions, like when to start the privatisation process, the speed of the process, what models and the credibility of the chosen policies.

Already, there are clear signs of recovery in Central and Eastern Europe, which are reflected in an improvement in labour market conditions in 1994. Employment is beginning to stabilise and unemployment to fall. However, there are poverty, inflation and balance of payments problems. In addition, the process of privatisation and the implementation of financial discipline has yet to be completed.

Country reports

The Czech Republic has already largely overcome the institutional and organisational, and also to some extent the structural problems entailed in the transition period. In comparing the Czech macroeconomic performance with that of other countries in the region, the Czech Republic did well on external balance, labour market balance, public finances and inflation. Only Poland has had a better economic growth record than the Czech Republic.

In *Estonia*, economic growth has been quite good during recent years. Some industries have attracted the bulk of investments, mainly from the Nordic countries. Most of the smaller enterprises have already been sold off and the government is now focusing on large companies and is trying to complete the privatisation of the manufacturing industry by the end of the year.

Hungary has been the most successful country in the region in attracting FDI, accounting for 27% of the total investment at the end of 1994. Hungary has so far privatised about 40% of its state-owned enterprises.

In *Latvia*, FDI totalled $84 million in 1994 and, as well as by the USA, investments were made by the closest and traditional partners: Denmark, Germany, Sweden, Finland and the UK. According to the Ministry of Economy 24% of trade, 16% of public catering, 32% of household service facilities have been privatised.

Lithuania began the privatisation process early in 1991 with voucher privatisation. Since then, it has sold 90% of the assets registered in the first programme. In 1994, the private sector employed 64% of all workers.

In *Poland*, cumulative FDI by the end of March 1995 amounted to more than $5 billion. As a result of the mass privatisation programme, joint Polish and foreign fund management teams has been appointed to run the National Investment Funds. The government will pass 60% of its stock in former state-owned companies to the newly-created funds; 15% is allocated as pension and social funds, and 10% is to remain in the government's hands.

In *Romania*, the cumulative total of FDI since 1989 is about $1.3 billion. Nearly 53% of this came from Western Europe, with the European Union contributing 43%. Already 30% of state-owned companies, mainly small, have been sold off.

In *Slovakia*, the largest foreign investor is Germany followed by Austria, the Czech Republic, the USA and France. In July 1995, Slovakia's parliament passed a law ending mass voucher privatisation. The law passes control of privatisation to the National Property Fund, the state privatisation agency. The share of the private sector in GDP was 58% at the end of 1994.

Future work

Reiner Hoffmann, the Director of the ETUI, stressed that there are some areas which need to be examined more closely. Privatisation is an important part of the transformation process but there is very little discussion about what to privatise and what is the role of the public sector. Also, more information is needed about the role of trade unions, employer organisations and multinational enterprises in privatisation, and what strategies they have. The International Monetary Fund has still a very influential role in the whole transformation process and the network should follow and collect information about its policies.

Reiner Hoffmann also mentioned some important areas which have not yet been covered. One of the most important is the enlargement of the EU and the trade union response to this. Because there will be some areas of conflict, he stressed the need for open discussion. Another important area is the role of tripartite committees in CEECs. The third area is developments in collective bargaining. This area will be covered in close co-operation with the ILO-CEET. Further coverage is needed in labour law and social security developments.

Concerning the working methods, he called for networking on a continuous basis. There is also a need for a contact person in academic research institutes in the

CEECs. The network should use external experts in cases where it does not have own expertise. Already, there is a well functioning co-operation with the ILO-CEET, the Hans Böckler Foundation and the TUAC but perhaps there is a need for closer links especially in the area of macro-economic analysis with the TUAC.

Werner Sengenberger, the director of the ILO-CEET, agreed that continuous networking is important because there is a need to economise resources and to avoid duplication of work. He pointed out that there already exists well established co-operation between the ETUI and the ILO-CEET. As new themes, he suggested that it is time to take stock of the transition process in the CEECs, to look back what has happened and where we are heading. He mentioned that next year the ILO will arrange a congress to compare the transition process in the CEECs and in South East Asia.

The participants stressed the importance of networking and information exchange between the partners in the network. It was agreed that the ETUI should also inform the partners in the CEECs about the most important developments in the EU in order to help the possible enlargement process.

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1. Direct Investments in the CEECs

Kurt Hübner

One of the more analytical definitions of foreign direct investment states that FDI is the marriage between an investor's firm-specific advantage and a host country's site-specific advantages. Accepting such a definition, one has to ask what are the site-specific advantages of the Central and Eastern European economies, and who are the companies which want to use their advantages in this region of the world economy. The answer to such a simple question seems fairly simple, too. First, the Central and Eastern European economies show a low level of real wages. In connection with their improved level of labour productivity the unit-cost component of wages is comparatively low. Second, all governments of these transition economies have changed the legislation concerning foreign direct investment. As overviews by the OECD and the IMF show, each economy presents for potential foreign investors a series of preferences in terms of tax-free years, subsidies, and so on. Third, all these site-specific advantages will be used by the most mobile and most cost-conscious types of firms. The conclusion holds that the transition economies will be a prominent host region for foreign direct investment stemming from the advanced capitalist economies.

As we all know, this is one but not the only story. The national attraction of foreign direct investment is a very complicated process which depends on many factors a national government cannot control or steer. The governments in many transition economies still have to learn this part of the story. After the political turmoil in 1989, the then established political classes in Central and Eastern Europe, together with international institutions like the IMF, the World Bank or the OECD were predicting a huge amount of FDI-flows into the region to assist the difficult task of going from the socialist shortage economy to a capitalist money and market economy. In the beginning, very optimistic catch up-scenarios dominated the discussions. As a early model simulation by Collins and Rodrick has shown, such degrees of optimism have had no material base. Concentrating on the Central European economies, to catch up in ten years in terms of labour productivity alone would have required $420 billions per year. This would have been a extraordinary amount, exceeding the readiness of the internal as well as the external capital markets.

Compared with the early very optimistic hopes, the actual amount of foreign direct investment in 1994 seems disappointing. The overall stock of the eight most important host countries for FDI amounts to $17.8 billion. The following table give a rough picture of the national composition of this stock figure (table 1). It is obvious that the stocks show a high degree of concentration. In 1994, the FDI of four of these economies makes four fifths of all FDI in the region. The top ranking economy is Hungary followed by Poland, Russia, and the Czech Republic.

Table 1 : Foreign investment stock in selected Central and Eastern European economies, mill $

	1.1.1992	1.1.1993	1.7.1994
Bulgaria	15.5	68.8	286.4
Czech Republic	595.1	1555.6	2489.8
Hungary	3137.0	5501.9	8281.3
Poland	479.5	1644.1	2650.0
Romania	225.8	516.2	794.2
Russia	-	-	2733.6
Slovak Republic	-	231.2	450.0
Albania	-	-	150
Together	4452.5	9817.8	17840.3

Source: UN ECE, 1994

As is widely known, all figures on foreign direct investment show some methodological defaults. This is especially true in the case of the Central and Eastern European economies where adequate manuals for registering and evaluating have had to be introduced in the last few years. Empirical investigations in a comparative sense are confronted with many difficulties, one of them concerning the problem to operationalise foreign direct investment and to distinguish between FDI and portfolio investment. The figures presented in table 1 show one more problem because the Economic Commission for Europe, which collates figures from the national institutions of the transition economies and itself is registering figures in a data bank not only include foreign investment which is actually operating, but also that which is merely notified. This procedure therefore tends to overestimate the amount of foreign direct investment. The UN Division on Transnational Corporations and Investment follows another path. They count only the investment that is operating. Consequently the figures presented in the yearly World Investment Report are significantly lower. In this case, the overall stock for the economies taken together in table 1 amounts to only $7.3 billion (end of 1993). Also this is a noteworthy difference: a concise discussion of the figures could show that, firstly, the reporting institutions are steadily correcting their figures, and, secondly, both procedures show the identical dynamics and direction of flows and stocks. A second methodological remark concerns the ranking. As the absolute amounts of foreign direct investments are relatively low, each investment case with a somewhere bigger amount can change the ranking. Good examples for this remark are Hungary and the Czech Republic where one half of all FDI in manufacturing is determined by only one investment case.

Let us come back to table 1. The ranking seems to be compatible with expectations. Hungary, Poland and the Czech Republic are the forerunners of the transition process, and the first two economies especially show a comparatively long history of, and experience with, foreign direct investment. In regard to FDI, the forerunner position means not only a comparatively high degree of macroeconomic stability but, more particularly, a privatisation programme which is favourable to foreign investors. One hypothesis says that there exists a positive correlation between the openness of the forerunners' privatisation programme and the inflow of FDI. This statement, which is theoretically underpinned by neo-classical propositions of market behaviour, cannot be empirically verified. Though Hungary shows the highest degree of openness in this regard, the share of foreign acquisitions of Hungarian companies is around the regional average. In absolute amounts, acquisitions by foreigners in Poland are three times those in Hungary. In the Czech Republic, where the legislation contains the most severe restrictions on foreigners, the share of acquisitions in the framework of privatisation schemes is only slightly lower than in Hungary. In terms of economic policy, this means that legal guidelines of privatisation may be important in regard to the investor's safety, but that they alone could not attract foreign direct investment.

Let me now turn to a more deeper analysis of the existing figures to FDI. According to the Economic Commission for Europe, the overall stock of FDI in the region is distributed into 111,000 so-called *Foreign Investment Enterprises*. The UN Division on Transnational Corporations and Investment speaks of 50,000 foreign affiliates. Again, the discrepancy is big. In the latter case, a foreign affiliate is defined as a *Foreign Direct Investment Enterprise* (FID) if there exists a ten per cent foreign share of its capital; in the former case no such quantitative criteria have to be fulfilled. This may explain a part of the discrepancy. Another part may be explained by the fact mentioned earlier that the ECE also counts affiliates of only notified Foreign Direct Investment Enterprises.

Taking the figures by the ECE leads to a very interesting distribution of the affiliates. The highest number of FIDs is registered in Romania. More than 30,000 units were counted up until mid-1994. If we relate this figure to the absolute stock of FDI, we get an average amount of $26,000 per unit. This is a very low amount, even if we compare it with the average figure of developing countries, where the FDI-amount per unit is about $4 million. In Poland and Hungary, about 17,000 units were registered, followed by the Czech Republic and Slovakia with 6,600 and 4,600 units respectively. The highest FDI-amount per unit can be found in Hungary, with $470,000, followed by Poland with $320,000. In the Hungarian case, one can show that these figures tend be statistical artefacts. An analysis of the newly-registered FIDs shows that about two third of these units have less than $10,000 of FDI at their disposal. The share of these units on the overall FDI-flows was about 7 per cent. Only two per cent of all FIDs show a foreign capital share of about $1 million. These two per cent make about 70 per cent of all FDI flows. The same is true for Bulgaria. In 65 per cent of all FDI-cases, the foreign capital component is less than $1,000. In 87 per cent of all FDI-cases, the foreign capital component is less than $10,000. This

87 per cent mobilises only one per cent of all stocks of FDI. Both cases are representative for the region.

One conclusion is obvious. The region is dominated by small investments. Though it may be true that these investments work as a door-opener for future projects, we have to recognise that today the economies of the region are not a prominent target of world market integration by multinational or transnational companies. This is underlined by the relatively small numbers of green-field investments and strategic acquisitions by western investors. Only in Hungary, where they comprise about 30 per cent of all FDI, are green-field investments are of a higher importance.

To put it in another way, the economies of the region only marginally participate in the ongoing process of the building up of a globally integrated production system. Though manufacturing industries are the main host sectors of FDI, in the majority, these investments do not represent the most lately forms of investments by western firms. Looking at the mere average amounts of the bulk of these investments, it seems if the Central and Eastern European Economies were the host countries for important, but, in global terms, outdated, investment strategies. This general proposition does not hold for all FDI cases. Nevertheless, looking especially at the FDI cases operating alongside the "western" frontiers of some of the transition economies, we can see the building up of some forms of *maquilidora* production, where western investors simply are exploiting the cheap and vulnerable labour of the region.

Looking at the behaviour of FDI in terms of exports and imports shows a further interesting result which resembles the experiences of many developing countries. First, the investing companies show a significant higher export orientation than the so-called "national firms", which contributes to the export-oriented integration into the world economy. This attitude could have dynamic effects for the other sectors of the economy. Second, the investing companies show a significant higher degree of imports, which, in some cases outpaces the firm's exports, and contributes to the trade deficit of the economy. This is especially true in Poland, where the FDI companies experienced a negative trade multiplier in the last three years. As the Polish case shows, this deficit mainly is produced by the small number of foreign affiliates with a foreign capital component of more than $1 million. Though there are not enough data and information for a precise interpretation of this development, one can suppose that this is the result of cost-cutting by western firms which are out-sourcing some of the more labour-intensive parts of their production chain, and are re-exporting the products.

For political as well as for cultural and historical reasons, it is not surprising that the bulk of the stock and flows of FDI into the region of Central and Eastern Europe stems from the economies of the European Union and the formerly bigger bloc of the European Free Trade Area. Table 2 gives you a general view. As could be predicted by gravity index-analyses, the most prominent investors in the region came from the economies of the European Union were . In the case of Hungary, almost four-fifths of all FDI stem from this region. The CEE as an investor-region only plays a role in the case of Slovakia (this share can be mainly explained by former Czech investments) and of the Russian Federation. In the case of Poland and also of the Czech Republic, the US show a rather high share of all FDI. What seems to be most astonishing about the figures in table 2 is the absence of Japan (Table 2). This is astonishing because, since the mid-eighties, Japan has been the most dynamic economy in terms of FDI and today is the world's biggest net exporter of FDI. It seems that in the view of Japanese investors this region of the world economy simply does not exist.

Table 2: Composition of the cumulative foreign direct investment in CEECs, by country of origin, 1993

	USA and Canada	EU and EFTA	CEECs	DC	Others
Czech Rep.	28	66	-	-	7
Hungary	6	78	5	-	12
Poland	39	59	1	-	11
Romania	17	67	3	7	7
Russia	16	49	15	7	14
Slovak Rep.	17	68	12	4	-

Source: UN 1994

By further breaking down the figures of table 2, we can identify the most important single investor countries. (Table 3) With the exception of the Russian Federation and Romania, Germany ranks in all other cases on the top or in the first three ranks. This prominent position of Germany in the FDI balances of the Central and Eastern European economies is in some degree reflected in the changing structure of the composition of German outward flows. In 1993, more than 10 per cent of all German outward flows were directed to the CEECs. (Table 4) These flows show a high degree of concentration. Most German FDI goes to Hungary, Poland and the Czech Republic. Romania, Bulgaria, and also the former Soviet Union do not figure much as host economies for German investors.

Table 3: Most important investor countries for selected CEECs, (share of overall stock)

Albania	Bulgaria	Czech R.	Hungary	Poland	Romania	Russia
Italy	Germany	Germany	Austria	Germany	Italy	GB
Greece	NL	USA	Germany	Italy	France	USA
Germany	CH	France	USA	USA	GB	China
Luxemburg	Belgium	Belgium	NL	NL	USA	Germ.
Poland	USA	Austria		France	Germany	Austria

Source: UN ECE, 1994

Table 4: German foreign direct investments in selected countries of CEE, million DM

	1989	1990	1991	1992	1993	1. half of 1994
Poland	3	6	63	164	326	168
Czechslov.	-1	2	800	561	-	-
Czech Rep.	-	-	-	-	664	347
Slovak Rep.	-	-	-	-	89	23
Hungary	71	203	405	833	709	357
Romania	0	-4	1	11	6	7
Bulgaria	4	11	16	4	5	7
Soviet Un.	32	33	-83	18	54	142

Source: UN ECE 1994

To interpret all these empirical findings is a difficult task. In my view we not only need better general data; we need a lot more country and case studies which could help us to distinguish several forms of FDI, to recombine them with the developmental phase of each transition economy and to relate these forms of FDI to global developments in this field. Nevertheless, in a very rough way, three forms of FDI can be distinguished. First, we find the strategy of achieving market access and market share. This seems especially true for the consumer goods sectors: "Western companies…", the UN states, "have acquired numerous enterprises in the region with a whole range of popular local brands. Acquisitions have also taken place of many industrial goods producers which have very stable client bases. In many cases, the acquisitions have followed the foreign firms' attempts to prevent the firm from being split up and to preserve its links with its customers and client base". Second, we find the strategy of out-sourcing by transnational companies where some parts of the production chain were relocated and afterwards re-exported to the home companies. Third, we find the strategy of using the transition economies as export bases by exploiting the favourable wages and tax rates. An example for this strategy is the Swedish furniture producer, IKEA, which makes about 15-20 per cent of all goods in affiliates in the Czech Republic, Hungary, Poland, Slovakia and Romania (and sells about 1.3 per cent of all goods in these countries). And fourth, we find the strategy of sub-contracting and small-scale FDI, especially in the frontier regions of the CEECs.

In terms of development criteria, this mixture does not seem very promising. Though it is too soon for any ultimate conclusion, there is some evidence that the economies of Central and Eastern Europe are experiencing a process of world market valorisation under a regime of cost-cutting and restructuring according to the needs of western firms. This is unlikely to lead to sound and balanced economic development.

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2. The informal sector in the CEECs

Ildikó Ekes

There is no consensus yet as to what constitutes the hidden economy. Estimates on its volume will obviously vary depending on what forms of activity it encompasses. Another reason for the differences in the estimated size is the different methods applied. The statements in this study relate to the hidden economy of the SNA , as defined by the UN recommendation. Under this recommendation, an activity has to be considered as productive and legal, even if it is hidden from the tax authorities, the social insurance, the different control institutes and the statistics. Under this definition, the hidden economy includes forms of income generation connected to crime and activities of legal enterprises, which are intended to help tax evasion.

In Hungary, there are no regular estimates made as to the volume of the black economy. The latest data refer to 1991-92 when three comprehensive studies were made. (Research Institute for Economy /GKI RT/, Market Economy Foundation /Piacgazdaság Alapítvány/ and Ékes). In reality, they were not seperate estimates. Most adopted calculations from the others.

In the three estimates, there was a slight difference in the income-types analysed. However, the proportion of the hidden economy measured in terms of the GDP did not differ greatly. The proportions calculated on the current amount of the GDP were as follows: GKI RT: 23%, Market Economy Foundation; 25-26%; Ildikó Ékes: 23-24%.

An important feature of the Hungarian statistics must be mentioned here. The Central Statistic Office (CSO) includes part of the hidden economic activities (primarily the hidden income of private enterpreneurs) into the officially published GDP. The realistic basis for comparison is the GDP excluding this part. 1991 the volume of the hidden economy calculated by the CSO amounted to 165 billion HFt and in 1992, 257 billion HFt. If these are ignored, the previously-mentioned proportions will be modified as follows: GKI RT;25-26%, Market Economy Foundation: 28-30%, Ildikó Ékes: 25-26%. As the calculations of the CSO follows the above-mentioned principles, the GDP should only be raised by 16% in order to arrive at the GDP of the full hidden economy.

It is extremely difficult to estimate the development in the dynamics of the hidden economy. Two factors primarily influence it. On the one hand, the amendments to the tax law and the related regulations influence the methods used to conceal income and performance. Due to the spread of new methods spreading, it seems now that the hidden economy is constantly growing. It should also be noted that the modification of the different legal and economic regulations closes down certain forms of invisible income. The new methods could even result in a final zero balance. In this respect, therefore, there is not necessarily a growt.

The second important issue is inflation. The prognosis on a certain period of time usually multiplies previous values by the inflation rate. However, in this case this method is doubtful, because the different types of income generation in the hidden economy could decrease the inflation rate (the growth of the retail price index), if these were to be interpreted on that basis. Let us take the example of industrial services not billed. Generally, the bargain here is that the same work would cost less. The buyer and the service supplier share the unpaid taxes. One of the major inflation-generating factors has been increasing taxes. Any sector not paying the taxes due will therefore be profitable even under growth in consumer prices, with only a moderate price increase. This is facilitated by the fact that the hidden economy is developing into a complete system. Once a person is in, he can avoid the higher prices of the primary economy in all his transactions. If the price index calculations included an expanded accounting, the prices and price increases in this part of the hidden economy would bring down the price level and the price index.

Certain activities in the hidden economy undoubtedly increase the price level, . For this reason, using price indexes in the estimates seems to be acceptable. The proportions are likely to be stabilised, as the increase of the price index appears in the current price GDP. On the whole, no change in the proportions or slight increases are probable.

The structure of the hidden economy

The last six to eight years caused great changes in the whole economy. These changes had an impact on the structure of the hidden economy, too. The most important ones were the following:

a) A free entry to the market and as a result of this, a fast-growing private sector. Parallely to the personal income tax introduced in 1988, more and more people pay taxes, and file tax returns were made, by which tax-payers have the opportunity to hide their income. The growing number also means that more and more people are doing this. The same is true from the point of view that private enterprises are mainly small units, where the acitvities often get mixed up and are uncontrollable. In contradiction to the previous large organisations, they have more opportunity for tax evasion and in proportion to their number, there is obviously a widening circle making use of it.

b) Licencing organisational forms for the first time in 40 years. It is not by chance that the most popular form is the private limited company (Ltd). The owners establish a number of firms with the same capital and declare losses or bankrupcy, while their liability is only the input assets. The money received in form of unpaid orders from others is the basis for establishing new firms.

c) Making privatisation a priority of the economic policy also meant that the domination of the state assets had to be broken down. It is well know that privatisation has always been accompanied by corruption. Where there is a lot to be privatised - as it is the case in our country and the neighbouring ones - the volume of corruption will be appropriately greater. This branch of privatisation stimulates the growth of the hidden economy, as the value of the products and the enterprises - similarly to that of land - was not clear. With a revaluation of the enterprises bought at book-value price, one could make a fortune without having to invest anything.

There are a number of other techniques which have made certain people rich in the course of the privatisation: the profitable part of the enterprice was turned into a limited company, while the deficit was left with the mother-company; the company is deposited in a limited company at a low price and the capital of the staff (now the private investors) is written up zoe It may also happen, that these persons borrow the money from the old company; the new limited companyfounded by the management of the company trades with the company at excellent price and without any risk; etc.

d) The elimination of the state monopoly in trade. This enables the transfer of domestic money to foreign bank-accounts in connection with export businesses, the pseudo export turns up later on the black currency-market, resp. serves the estbalishment of pseudo joint ventures - this is the result of a simple export business and making use of the tax benefits provided for foreign investors.

e) The open borders increase the hidden economy in three more ways - beyond the one mentioned in point d). First, there is a greater chance for illegal private import. "Importers" can adjust themselves to any new customs regulation. As each group, lorry etc. can cross the border as many times as it wishes, it is simply a question of organization, to have on one side of the border the lading and on the other the transporting person. Crossing the border turns to be the "legal" importation of tonnes of marketable goods. Second possibility: by the open borders, working abroad illegally has become simpler. There are several villages along the Austrian border, where the people make their living oncrossing the border daily and working in agriculture or constructions in Austria. Finally, the free crossing of the borders opened up the road for the international maffia, - we can read about the consequences in police reports.

f) The elimination of the state monopoly in land and the privatization of land gave way to speculation and increase of property primarily for those, whose money is of uncertain origin. Next to this process there was the immence amount of compensation stock issued under the compensation law, resp. the problem of the evaluation of the landed area. In the majority of the cases, the white crown value of the land was unknown and it was sold at ridiculous prices to those who were more than aware of what they were buying. Especially big profit was made by those who had liquid money to buy compensation stocks entitled for the purchase of land.

Such processes (enumerated without the intent of being complete) paved the way for a number of invisible income resources. Other types of income generation connected to the hidden economy have decreased proportionally and lost their importance, e.g. tips. The reason for that is a fast spread of the already mentioned new income types. The other reason is, that the changes of the past years increased the burdens of the greater part of the population who were forced to withdraw from resp. decrease the consumption in areas, where supplementary income had been usual (e.g. restaurants, taxi, hairdresser, beauty shop etc.)

The structural changes meant, that the proportion of certain transferable, invisible income types decreased within the hidden economy, while new types (often including tax evasion) in connection with the economic changes and privatization started to grow and become dominant.

The reasons of growth

According to my studies made between 1986 and 1992, the hidden economy of the period had become five times higher. This cannot simply be explained by inflation, as the consumer prices were "only" tripled. The major reasons for the growth of the hidden economy are primarily rooted in the previously desribed facts.

a) The personal income taxes introduced in 1988. favoured the pay and file tax returns. Before, this had only been possible in the highly limited private sector. The fast expansion of the private sector after 1989 translated for many tax-payers into mere tax evasion. For the employees in the state and the cooperative sectors, the tax return was prepared by the organization. It would be difficult to believe, that proportionally speaking there would be less today than before, not making use of this opportunity. The growing number of the pay and file tax returns increases the number of tax evasion and the size of concealed income, as well.

b) Controlling a great number of small organizations would require an immence administrative staff and the preconditions are also missing. The constant lack of money and the intent to cut the budgetary expenditures hamper their development. Small organizations do not deal with the problems of the separation of functions, although this used to hinder certain possibilities for corruption (fraud or defalcation). The separation of the position and responsibilities made it at least more difficult in the large organizations. (e.g.: The treasurer and the bookkeper could not be one and the same person.)

c) Privatization eliminates the dominance of state property. The value of the state owned enterprices, works, businesses and factories to be privatized is fully unclear. A big part of the enterprices had made or begin to make losses before being privatized. Under the perplexed economic conditions of the transition (the collapse of the COMECON, the price liberalization, the import competition etc.), it is difficult to asses the market value of an enterprice and its real performance. Any price can have good arguments. According to the experiences of history, the privatization of state (or royal) assets has always been a hotbed for corruption (i.e. for the hidden economy). Why should it not be the same here and now?

d) The transformation of the economic system must necessarily be reflected by the legislation on economic activities. However, the provisions of law can only regulate the existing relations. If these relations change quickly and considerably, the legislation will constantly leg behind the reality and the previously provisioned areas and the latest rules will be in contradiction. It is the changes, that force the new regulations and influence areas provisioned before. Gaps and unregulated fields will make different interpretations of the law possible and result for some in financial profits or bring benefits not intended by the legislators to those, who realize the opportunities.

e) A further obstacle for the invisible income generation in countries with developed economies is the fact, that the most frequent form of wages and salary payment is the bank remittance. The transfer of money can be followed relatively well. In Hungary, but also in other Central and Eastern European countries, we mainly have cash payment. (It is an interesting contradiction to the economic philosophy of the past decades in these countries, according to which the cash-flow be limited to a small group and disappear after a certain period of time. The preference for cash-flow is a heritage of the past.) In connection with the increasing number of small organizations on the one hand, and the intent to conceal the generated income on the other, the cash-flow is increasing. The attemps to introduce other types of payment under the population have not brought success yet and small enterprises still have a preference for cash - due to the above mentioned intent of concealing income.

f) Finally, we have to mention the negative impact of the economic changes on large groups of the population. Assessments in the international literature unanimously state, that poverty (resp. enpoverishment) and unemployment are the hotbed for the hidden economy. It has always been one of the major objectives of mankind and the individual to live well and to live better. The changes have resulted in our country in decreasing real wages (except for 1994) and in increasing unemployment. According to official statistics, the proportion of people under or around existance level increased fast at the beginning of the 90ies. According to the calculations of the Central Office of Statistics, the number of people living under excistance level doubled in two years' time. In 1992 the number of people under or to a minimum extent above (10%) the existance level made up 25% of the population. Since then this figure raised to 1/3. Another speciality was, that already prior to the changes, even in the period of full employement, appr. 2/3 of the families had supplementary income. This made it possible for families, to live at a standard roughly responding to their needs. The shrinkage and later the disappearance of such possibilities, the decrease of the real wages and the growing number of unemployed living on benefit have gradually pushed the families to income not seen or controlled by the state or the tax authority. The solution was the increased activities of the hidden economy. Most of the enterpreneurs are good partners here, as their profit on black employment is greater, than that of the worker.

Possible methods for the solution

The government declared its intention to bring the hidden economy to daylight and assigned several experts to prepare recommendations.The proposals prepared cover three areas:

1. the transformation of the economic environment and regulations;
2. the transformation of the institutional system;
3. increased control and sanctioning in areas where the other methods cannot bring changes.

This study does not intend to discuss in detail the proposals prepared for the governement. However, let me refer to the most important ones:

- to harmonize the legal system,
- to connect the existing, independant registrations on enterprises,
- to moderate the tax and social seciruty contributions,
- to introduce by law force the declaration on the assets and the control of property growth from year to year,
- to regulate the cash-flow of enterpreneurs,
- to control certain international financial operations,
- to require caution money in certain cases of economic importance (e.g.: oil-trade),
- to develop a pension system based on lifetime-income,
- to tighten tax and labour control,
- to establish the central register of immovables,
- to tighten the law on returns,
- to have more precise regulations on trade,
- to introduce exact requriements for commercial professions,
- to tighten the regulation of business groups and
- to strenghten the rules on the protection of consumers.

Why is the hidden economy a problem for the unions?

Briefly speaking, this has three major reasons. First, the hidden economy creates unfair competition for the legally operating and tax paying organizations, by which they are not able to expand resp. maintain their activities. This is an indirect contribution to unemployment. Second, the hidden economy results in missing taxes in the budget, which tries to compensate this by increased tax burdens.

The hidden economy increases the burdens of employees with visible income an can contribute to the enpoverishment of these strata. Third, it forces employees in or afraid of poverty and the unemployed to work in the hidden economy, where they become defenceless. The unions cannot rely on them as members but cannot support them to represent their interests against the employer, either.

It is clear from this short summary - and hopefully from the above described as well-, that the problem has many aspects.

It has always been the task of the unions to represent the interest of the employees. Resulting from the traditions of the past 40 years, in Hungary unions claim more competences in the field of the representation of interests. They want to represent the interest of the working and the unemployed population, but also the interest of the inactive people. Since the establishment of the social insurance municipalities in 1993, the unions control the social insurance (pension and health scheme), as well. The latter - managing the pension scheme - entitles the unions to represent the interests of the largest group of the inactive, that of the pensioners.

Due to the hidden economy, we have special circumstances today. The unions are in contradiction even with the ones, they represent. The interest of the employee and of the unions trying to defend them collide on three points. Unions can efficiently represent the interest of the membership, if supported by a large number of employees. This gives them political and economic power, by which they can exert pressure in case the interest of the members is breached, or on the employer, their organizations - or when needed -on the government. It is a Hungarian speciality, that the latter one is still the most important. Workers' interests are not articulated at the appropriate level (not in at the enterprices or branches), but in the relation between the unions and the government. The interest of the unions is to have a large membership. This interest is offended by the hidden economy on two points: first, that unemployement decreases the membership and second, that black employment does not support the unions, but worsens the bargaining positions of the legally employed as another weapon in the hand of the employer. The employer (especially in small units, like retailer) can dismiss the legally employed, if he thinks they demand too much and employ black ones - or even the one fired from the legal employees.

Under the present Hungarian conditions, the employee is confronted with the unions in such issues. Due to the increasing taxes and prices, the employee's interest is to have an income at any price and he does not realize the traps hidden by the momentary higher pay. Young or middle aged employees are not really interested in shrinking social benefits, as a result of black employment. They only care for the money they get at the end of the month. This is a general phenomenon in a society experiencing the elimination of an old system of state paternalism. This creates a crises of confidence. The citizen, who can only live by his/her own strength, will hardly believe official organizations. He does not believe the unions, either. He is convinced, that only he can solve his own problems. And this requires the most possible money under the given circumstances.

The second point of confrontation between the interest of the unions and the employees is the black trade. In think, the peaceful transition has largely contributed to the development of black trade. There were less people in the position of having black work, than those who keep buying at black, or grey markets. Black employment requires an employer and some kind of professional knowledge. But anyone can buy -often inferior products - cheaper on the black or grey market. It is less quoted, but is still a fact, that a means of guaranteeing the operation of the market economy is, that basically everyone can have any goods, the only great difference lies in the quality. The borderline between the rich and the poor is not the type of assets they own (this, however can be a difference, too, as poor people will never have e.g. a helicopter), but it is primarily the quality of what they can have. This makes people tolerate even the largest income differences. Black markets have this type of balancing role among the existing prices and the average wages. This is the place, where poor people can buy products. Unions, on the other hand, see well, that people act against their own interest by these markets: the turnover of the retail business has been decreasing from year to year (between 1989 and 1994 by appr. 30%, calculated at comparable prices). Consequently, employees working in retail are dismissed or work black to make the business profitable.

Finally, there is a collision of interests according to the role unions play in the pension scheme; the collision is between the unions and the employees trying to evade solidarity and to maximalize their personal income. Black employees do not pay any pension contribution either, which in the present "go as you pay" system would create the basis for financing the pensions. This deprives the unions supervising the social insurance of resources which are essential to implement their task with the satisfaction of the beneficiaries.

What can the unions do?

There are immence, yet at the same time limited possibilities. The tools applied by the developed countries of the world are generally connected to local conditions, the circumstances and the culture of the country. The adaptation of the methods can result in problems, - we could see examples for this in the endavours of the government.

However, there is no other choice, than to describe the successful solutions. One solution could be for unions to press the employers to pay attention to persons, who are members of the same chamber or have similar activities, for the illegal employement can be disadvantagous for the competition, too. The disadvantage is clear in commerce. According to estimates, the turnover of the grey-black markets reach 650 billion HFt, appr. 1/3 of the retail business. The proportions show a big shift in the sales. There is no need to emphasize, what efforts the "guilds" in the developed countries make to protect the prestige of their profession. Products in the grey and black market are not only cheaper for sharing the profit with the customer gained by tax evasion, but also because of the poor quality of the goods.

For more than one and a half decades, the basis of the economic policy of Hungarian governments has been the export expansion. During this period, foreign experts, Hungarian economists and experts had several times brought the example of Japan and the countries of the Asian region, called the Small Tigers. The aim of setting the example was to show, that these countries developed by their export offensive. However, no one mentions the fact, that the export increase in these countries was not a result of shrinking the internal market, on the contrary, it took place by generating the growth of the latter, as well.

From point of view of our topic, a more important example is that of the Productivity Centre mentioned so much in our country in the 70ies. This is again a solution rarely referred to at present, although it can bring advantages to the employee by the agreement with the employer, without ruining the productivity of the economy - on the contrary, it can even grow. The growth excludes the expansion of the hidden economy, as it is facilitated by the shrinking activity of the primary economy.

The Productivity Centre is basically an agreement (a contract) between the employer and the unions. The agreement contains, that the employer cannot dismis employees as a result of increasing the productivity by technological investments. Against the background of this agreement, the employer is obliged to provide workplaces for the emloyees redundant because of the technical development. It can be a solution combined with retraining, as well. This mechanism does not allow the employees to be thrown out to the street and be forced to search for illegal income resources. Trade unions tried to support such solutions by collecting money from employees to help the unemployed and using the money to correct the wages of the employees already when the enterprise intended to dismiss them, due to decreasing profits. The unions supplement the wages cut in order to maintaine the production level, try to avoid their dismissal and stop them from fleeing to the black economy.

Beyond all these possibilities, the unions have one more option to eliminate the hidden economy. And this is education. To try to make workers understand, that the momentary benefit is on the long term their defencelessness and financial damage. This is not easy to do, as it is difficult to convince someone about future advantages, when he has problems at the moment with paying the electricity bill. However, I think it is the task of the unions to make an attempt. Unions can be more effective, if the generated resources are not only to pay the aid and the benefits, but also to provide a continuous financial support for the workers in difficult situtaion. As I pointed out above, poverty, the fear of it or of enpoverishment make the employee become active participant of the black market,both as an employee and as a buyer.

Finally, all this makes it clear, that the unions are the most successful in their fight against the hidden economy, if they have an effective protection of the interest, i.e. they can stop enpoverishment and protect the employees from becoming defenceless. This means among others, that according to their possibilities, unions should help to hinder corrupt practices in privatization and to develop other branches of the black economy, they should support the control of the economy where it is not hidden, but black, with other words where the economic regulations and the development of the appropriate economic environment fail to stop the growth of the hidden economy, - where it is already illegal activity.

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3. Privatisation in the CEECs

Heikki Aintila

1. The transition process

The objective of the countries of Central and Eastern Europe is to become market economies. The process of changing from a centrally-planned economy to a market-based one is complex, and, even under the most favourable conditions, it entails difficulties and severe transition costs. Generally speaking, the transition process includes three main components: macroeconomic stabilisation; liberalisation; and institutional reforms, especially privatisation.

Stabilisation usually means controlling public expenditure and slowing down inflation, mainly through macroeconomic policy. Macroeconomic stabilisation is an essential element of economic reform. An unstable economic environment not only distorts the price signals but can also cause crises which can undermine support for the transition process. However, macroeconomic stabilisation is not without costs in terms of lost output and employment.

Economic liberalisation usually means moving towards a market-determined system of factor and product prices, and opening up the economy by reducing barriers to trade and factor movements. Also, introducing currency convertibility is an important element of economic liberalisation.

Privatisation can be defined as the transfer of ownership from the public to the private sector. Other definitions stipulate transfer of control, or entitlement to profits. The main objective of privatisation should be to promote an efficient and accountable use of resources. Privatisation should be implemented with a correct balance between technical simplicity, fairness and incentives, and the implementation must go far beyond merely accepting the principle of privatisation (Dornbusch, 1991). Efficient production and services sectors are essential for competitive integration into a global economy. Therefore, privatisation has an important and central role in the process of becoming decentralised market economies.

2. Privatisation policies

Despite broad similarities in the structures of these economies, there were important differences in initial conditions like the extent of imbalances, the degree of decentralisation and the extent of the private sector. Initial conditions can strongly influence both the path of transition and the options available to the policy-makers.

One possible indicator of distortions at the initial stage is the share of exports to the CMEA countries (formerly COMECON) in 1987-1989 (Table 1.). This managed trading system tied its member-countries into internal trade with special production, price and quality targets for each country. Also, the structure of trade was distorted, particularly by excessive specialisation. These markets were not subject to any market test of quality and price. Countries which had over 40% of exports to these markets have severe restructuring problems. According to this indicator most of the countries were heavily distorted by their integration to this trading system. Romania was an inward-looking, centralised and tightly controlled socialist economy (Godfrey, 1995).

Table 1. Exports to member countries of the CMEA as proportion of total exports, Central and Eastern Europe, 1987 - 91, %

	1987	1988	1989	1990	1991
Bulgaria	63	61	62	53	55
Czechoslov.	54	51	47	37	33
GDR	44	41	38	35	-
Hungary	50	45	41	31	19
Poland	47	43	41	33	17
Romania	28	25	25	24	28

Source: Martin Godfrey, 1995

Another indicator of initial distortion is the degree of economic centralisation before the reform process started. The Czech and Slovak Federal Republic, Bulgaria and Romania had relatively centralised economies, with planned materials supply systems and ministerial intervention in enterprise management. By contrast, from quite early on, Hungary and Poland were progressively moving towards the market-based distribution of products and greater autonomy for enterprises (Fischer and Gelb, 1991).

Policy choices involve several dimensions, like when to start the privatisation process, the speed of privatisation, what models are followed and the credibility of the chosen policies.

The first policy choice is when to start the transfer of state-owned enterprises to private owners. After the revolutions in 1989, the policy-makers in Czechoslovakia, Hungary and Poland chose to tackle reform as soon as the government's commitment to privatisation was established. Usually, countries which have postponed the start of the privatisation process to a later stage have experienced implementation problems because political considerations then dominate the choice of possible adjustment path.

The second policy choice concerns the speed of reform (Fischer and Gelb, 1991). Should the privatisation process be gradual, with slow dismissal of surplus labour, or rapid and comprehensive? “Slow privatisers” argue that privatisation should wait until there are new rules of economic behaviour, a new business class with long-term views and a more rational price system in order to gain more state revenues from the sell-off of the state enterprises. The ideal for the trade unions is to phase out jobs only when new jobs are created. In the early stages of the transition, governments from East and West widely supported the role of foreign direct investment as a gradual, non-interventionist approach to privatisation. However, the volume of foreign direct investment in Central and Eastern Europe has been disappointing. Only, Hungary, the Czech Republic and Estonia have been able to attract any sizeable amount of FDI in the early stages of the reform process.

"Fast privatisers" claim that comprehensive and rapid change of ownership is necessary to increase the efficiency of the enterprises and to prevent the formation of interest groups which could slow down the privatisation process. Furthermore, they say, the benefits of rapid privatisation and possible higher tax revenues outweigh the costs of reduced state revenue. Even an immediate corporatisation of state-owned firms could remove them from direct bureaucratic control. Some of the supporters of fast privatisation have even claimed that the entire success of the reform programme is predicated upon a quick and early privatisation programme.

The third policy choice is what models to use (Standing, 1993). The privatisation models used have been : spontaneous; legislated; and conversion (or corporatisation) privatisation.

Spontaneous, or small-scale privatisation includes the emergence of small-scale enterprises. In all CEE countries, most of the private businesses created have been small. Many of these small enterprises have been informal, if not illegal. This has been a pre-transition phenomenon.

Legislated privatisation has usually received most of the attention. Because it has been so slow, there is an impression that overall privatisation has been unsuccessful.

The conversion, or corporatisation privatisation refers to the transformation of state enterprises into joint stock companies. This mode has been most common in Hungary and Poland.

The fourth option is how to create a credible privatisation policy (Rutkowski, 1995). This means a credible commitment to moving away from old system and a consistent approach to reform. A credible reform policy requires that governments, employers and unions have a common interest in moving towards a new economic system. The long-term interest of workers requires that the reform process moves along a job-creating growth path. Also, long-term credibility is a pre-requisite for foreign direct investment and foreign aid policies.

3. Different national privatisation strategies

The initial approach to privatisation in the former East Germany, Czechoslovakia, Hungary and Poland was to sell state-owned enterprises as quickly as possible, preferably as entities, and to keep the state from intervening in any way. (ECE, 1994).

Privatisation in the former East Germany has been much more extensive and was carried out more quickly than in any other CEECs. However, this model cannot be easily applied to other transition economies. The Treuhand's policy was supported by massive infrastructure investments by the government of West Germany. This made the eastern Länder more attractive as a location for West German enterprises. Financial restructuring involved shifting a proportion of enterprise debt to the federal budget. The financial costs of this transition process are still huge. Germany transfers about 85 billion ECUs every year to the former eastern Länder (Samland Detlev MEP, 10 May 1995, in the ETUC Congress, see Transfer, Volume I, Number 3, p.426).

Outside the former East Germany, rapid privatisation of big state-owned enterprises has only occurred on a large scale in the former Czechoslovakia—paradoxically, one of the most highly centralised command-economies in Central and Eastern Europe. In 1986, 97% of output was in the state sector. Privatisation of manufacturing and major services (small shops and restaurants were privatised earlier) started with the Large Privatisation Act of February 1991. This introduced a variety of methods of mass privatisation, including voucher auctions, direct sales, joint ventures and competitive auctions and tenders.

The most prominent method has been the voucher scheme. This allowed citizens to buy vouchers at the nominal price of $35 (the average weekly wage). These vouchers could then be used in bidding for shares in privatised companies in a series of bidding rounds. The scheme initially attracted little interest until the entry into the process of Investment Privatisation Funds, some of which were small new companies, others already established banks. The voucher scheme did not produce dispersed ownership but ownership which is concentrated in these Investment Privatisation Funds. According to some estimates, the share of the private sector is already about 75-80% in the Czech Republic.

The Czech privatisation programme has gained great credibility and, according to opinion polls, a great majority of trade union members supported the government's programme (ILO, 1995). Instead of opposing the privatisation programme, the trade unions concentrated on creating facilities for successful representation of workers in collective bargaining. The main goal was to establish a new decision-making process as quickly as possible in order to have a real counterpart in collective bargaining.

Hungary is usually considered as a country committed to the rapid sale of state enterprises as entities and without dealing with enterprise debt. This was not very successful, except in the case where monopolies were for sale. Hungary moved to centralised privatisation with the establishment of the Hungarian State Property Agency (SPA) in 1990. This centralised approach has slowed down the pace of restructuring and privatisation. Also, there have been political reactions against the initial fast privatisation and the role of foreign ownership.

In Poland, the reformed communist party scrapped the scheduled sale of 460 state enterprises under a "mass privatisation programme" soon after it returned to power in October 1993. Since then, the privatisation programme has gone nowhere because of the new government's apparent dislike of market reform and its suspicion of foreign investors. A new privatisation programme was finally launched last July, which follows the Czech voucher model. The certificates go on sale for $20 each in mid-November. The new laws have yet to be signed by President Lech Walesa.

The Slovakian government has decided to abandon mass privatisation. The ending of coupons-for-shares privatisation was approved by the Parliament on 12 July 1995 . The government can now pursue its favoured approach of selling state companies to the people who run them, or to single investors.

In Bulgaria, where the privatisation process has progressed more slowly, the share of private sector was about 27% in 1994. In 1995, another privatisation plan has been approved by the Parliament. It is designed on a parallel method of cash deals and mass privatisation, via vouchers, commencing the delayed sell-off of some 3700 state firms.

In Romania also, privatisation has not preceded as far as in a number of other countries. In 1994, the private sector accounted for 35% of GDP as a whole and 46% of service output. A significant proportion of agricultural land has been returned to private ownership.

In Estonia, the Law of Property was adopted in 1991 and proceedings to change ownership relations started. About 40% of small enterprises have been privatised by using different methods, including auctions. The Estonian economy has been rather successful in attracting FDI. In 1992, there were 3,800 enterprises with foreign participation, out of which 1,920 had a partner from Finland, 833 from the CIS, 405 from Sweden, 68 from the USA and 63 from Germany. (Tiusanen, 1993)

Latvia has not advanced very fast in privatisation. However, landed property was privatised quickly. Industrial enterprises were commercialised during the first months of independence. This meant that the state companies were turned into joint stock companies owned by the state. In 1993, it was decided that privatisation of state assets would take place by the voucher method. Until now, Latvia has hardly been able to attract any substantial FDI. (Tiusanen, 1993)

In Lithuania, the privatisation process began in September, 1991, with the auction of small enterprises. This programme was based on the voucher system. The process has met with some difficulties. There were strikes and demonstrations by workers who protested that employees had been given too few opportunities to purchase their enterprises. Foreign investors have shown very little interest in participating in the privatisation. (Tiusanen, 1993)

4. Economic and the social consequences

Since the process of political and economic reform began in Central and Eastern Europe, production has fallen massively and the unemployment trend is upward. However, there are already some signs of improvement in the economic situation.

Nearly all countries experienced an increase in GDP during 1994. Nevertheless, unemployment rose in Albania, the Czech Republic and Poland. Elsewhere, the fall in unemployment was more due to declining rates of labour force participation. Long-term unemployment has continued to increase. Restructuring and privatisation have had adverse effects on women's employment, as has the scaling down of the public sector. (Tapiola, 1995)

Despite the greater optimism about the economic prospects, there are continuing signs of underlying difficulties. In Albania, Bulgaria, Hungary and Poland, inflation is still a serious problem. Moreover, Albania, Hungary and Poland continued to have serious balance of payments deficits. Romania, which has had continuous deficit problems since the restructuring began, still had balance of trade deficit in 1994, despite sizeable improvements in export performance. Bulgaria and Slovakia had a trade surplus in 1994 for the first time.

However, despite the growth of GDP, the level of output in all countries was still much lower in 1994 than before the economic reform began. In Poland, the level of GDP was about 8% below its level in 1989, even after three years of good economic growth. In all other countries, the level of GDP was much lower than this, by as much as 20% in Albania, Romania and Slovak Republic.

In most countries in Central and Eastern Europe, there is evidence of widening disparities in income distribution and rising poverty. In Poland, the number of people living in poverty is estimated at 35-40% of the total population. In some countries where minimum wages have been kept unchanged, inflation has eroded their real value. Also, the effectiveness of the social security safety nets has been eroded.

In conclusion, there are clear signs of recovery in Central and Eastern Europe which were reflected in an improvement in labour market conditions in 1994. Employment is beginning to stabilise and unemployment to fall. However, there are poverty, inflation and balance of payments problems. In addition, the process of privatisation and the implementation of financial discipline have yet to be completed.

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4. Consequences of direct investments, informal sector and privatisation for labour markets, industrial relations and social developments; contributions of national experts

4.1 Estonia, Mia Lok

Labour markets

The number of people in the Estonian labour force has decreased by about 200,000 since 1989 and was 640,000 in 1994. The population of working age was 840,790 in 1994, which made 56.4 per cent of the total population (1, 492,000).

The unemployment figures were highest in the spring of 1993; there were 22,000 people out of work—approximately 3% of the population of working age. Since then, the number of unemployed has been oscillating between 1.5 % or 2.5 % of the working age population. The total unemployment rate has fluctuated between 3 and 5 per cent. Mostly the agriculture and the manufacturing contributed to the army of unemployed—22% of the total number of unemployed people registered by December, 1994, had been engaged in agriculture and another 22% in manufacturing. Underemployment: many of the enterprises are not able to provide their employees with full-time jobs and the workers are either offered part-time jobs or forced to accept partly paid leave. Last year, the total number of part-time workers and people on partly paid leave was 38,924, i.e. 6% of all working people. That adds an additional 2 or 3% to the unemployment rate.

Informal employment is also high. According to the research done by the Ministry of Economy, our informal sector makes up about 12% of GDP. If the illegally employed and unemployed are divided fifty-fifty, the actual average unemployment level would be 5-7% of the active population. Neither does the low rate of our unemployment relief encourage people to register themselves as unemployed. Thus, the total unemployment rate in Estonia may reach 10-15 per cent.

On July 1, 1995, 64.2% of the unemployed were women. The highest rate of unemployment is that among people of 16-24 years of age and among would-be pensioners. The latter often has a tendency to grow and it constitutes 23% of men and 12% of women. Seventy per cent of the unemployed have had no professional training (special education). The long-term unemployment which covers 14% of the total number of unemployed is also growing. Although the unemployment relief is only $13, there are also people who are not interested in finding any job and exist on the social welfare benefits, which seems to satisfy them.

The unemployment rate is not very high, although great changes are taking place in the economy. This state of affairs has been caused by many reasons; among them are low productivity and the small size of the manufacturing sector, which has come to a standstill. The results of the research done among the trade unions have shown that due to the very low unemployment relief, most workers are afraid of losing their job.

Thus they agree to a lot of conditions (with relatively low wages, part-time work, often even with violation of labour laws by the employers). Also, they are afraid of confrontation between the employers and workers which in turn, has its influence on the trade union movement and vice versa.

The unemployment in Estonia is mainly structural because the labour market can not provide the labour force with the necessary training. In spite of Estonian's relatively small size, unemployment differs greatly by region and practically does not exist in Tallinn. According to the accounts of the Board of Labour Market, mainly skilled workers and artisans are needed; next come the specialists in servicing and trade; in the third place there are mechanics of installations and in the fourth place there are operators and drivers. The network of adult training has not been developed in Estonia and therefore the advanced training and training for new professions mostly takes place at the work place. The mobility of the unemployed in also low because it is very complicated to change one's abode.

The influence of privatisation on employment has not been studied exactly but, drawing conclusions from the experience of the enterprises were the trade unions have participated, we may say that at the enterprises to be privatised the number of employees as a rule falls. Against that, many of the business projects include future production growth and more jobs.

Industry

The industrial output (energy, mining, manufacturing) in 1994 was 23.9% of the gross domestic product, having decreased year by year (in 1991 it was 40,0%).

The share of industrial production by industry (%)				
	1991	1992	1993	1994
Energy production	10,0	11,0	11,0	12,9
Mining	2,9	4,3	4,3	5,7
Foodstuffs'production	27,0	30,9	32,7	35,7
Lightindustries	18,9	17,0	9,5	10,4
Forestry	9,7	9,3	5,7	7,4
Chemicalindustry	11,8	8,7	6,9	10,1
Constructionmaterials'ind.	4,6	3,9	2,7	4,3
Machinebuildingandengin..	11,5	9,7	6,6	11,0
Other	3,6	5,2	20,6	2,5

The leading position in Estonian industry is held by the foodstuff sector, with energy second and machine building third. Wood processing is a typical Estonian industry, so are high-quality sewn products.

During the first six months of 1995, the share of enterprises in state and municipal ownership in the total industrial production was 48.9%. Nearly half of the sales and more than a half of the net profit came from big enterprises with more than 100 employees, although these make up only 4.8% of all enterprises.

Exports made up 36.7% of all industrial sales in 1994. They consisted mostly of foodstuffs, textile fabrics, woodwork (timber), machinery and equipment.

The key issue facing industry has been finding a quick and efficient solution to ownership problems. Quite a number of enterprises have been in the process of privatisation for too long. Banks refuse to lend money to these enterprises and waiting for the decision causes tensions. The government programme of privatisation for 1995 aimed at the complete privatisation of manufacturing industry by the end of the year. The start of energy privatisation was also planned for that year. The main methods of privatisation have been public auctions and written bids; bidding with preliminary negotiations; and public sale of shares for privatisation securities (vouchers). This practice began in the last quarter of 1994.

Industry continues to be frustrated by the lack of demand. Obsolete machinery and technology make it hard to produce competitive high-quality goods, and therefore hard to break into western markets. Many enterprises find it difficult to get loans from the banks because of high interest rates and the lack of collateral — either in the form of immovable or capital assets — and business projects are put together with great difficulties. In most cases, foreign investors are looked upon as the main levers of further development of Estonian industry.

Last year, foreign investments in the manufacturing industry made up 49% of the total investments made in Estonia.

There are no exact data concerning the exact amount of investments put into the capital assets of industry but those concerning all Estonian enterprises are available. Finances for obtaining fixed assets were received from the following sources: internal funds of enterprises (50%); foreign capital (15%); bank credits (14%); state and municipal budgets (11%); private capital (5%); and other sources (5%).

Trade unions are concerned because of the monopolistic position of some of the industrial sectors, such as energy and mining. The government has promised to stimulate competition in those sectors, but nothing has been done so far.

In industry, the most prominent sectors of the underground economy are alcohol and tobacco. In 1994, the share of alcohol illegally imported to or produced in Estonia was about 40% of the local market. Tougher controls over the import of goods, and various other measures cut the market share of illegal alcohol during the first three months of 1995 to about 20%, according to estimates. The import of tobacco products is also more strictly controlled and cigarette packets carry special tax tags. According to the research done by the Ministry of the Economy, the leading position in underground economy is now held by services, followed by alcohol and then gambling.

The trade unions can seldom use their influence at enterprise level. This is because of the lack of structures though which the unions could have any effect on the development of economic and social problems. In November, 1994, the Research and Development Centre of the Association of Estonian Trade Unions carried out a survey among shop stewards in which one block of the questions concerned relations between employers and employees. From the results, it became evident that in the opinions of the shop stewards only half of the employers understand the necessity of trade unions and their place in the market economy. The results of the same interview also indicate the reasons why the employers at workplace level try to ignore the trade unions and the suggestions made by them. The absence of any law on co-operation was the main reason; the low authority of the trade unions was placed second and the opinion that the employers look upon the unions as disruptive elements came as the third. The authority of the trade union (its competence) in the eyes of the employer also plays its role.

Social relations

Living standards

The inevitable reorganisation in the transition towards a market economy following Estonia's independence brought about a substantial drop in living standards. Sharp rises in prices and reorientation of business from the previous Eastern markets to the Western market caused a sharp decrease in income and real wages.

In 1990, the purchasing power of the average wage was less than 60% compared to that of the last quarter of 1989; by 1992, it was less than 40%. For the last three and a half years, the level has been between 30-40%. Relative stability was reached with the establishment of the Estonian currency in July, 1992, and from then on, the real wage has tended to grow slightly (December, 1992 compared to June, 1992 — 100%; April, 1995 compared to June, 1992 — 121%). The purchasing power of the wage remains at 37 - 40% of that in the last quarter of 1989.

According to the State Statistical Office, the average wage (monthly salary) of a worker in Estonia in the first quarter of 1995 was 2086 Estonian kroons, i.e. $175.

The statutory minimum wage established on September 1, 1994, is 450 kroons or $38. The trade unions say that at the present moment, the sum of the minimum income should be at least 900 kroons or $76 to meet minimum consumption requirements.

In the first quarter of 1995, the salary of public servants was particularly low; for example the average monthly salary of people working in education was only 1763 kroons — 85% of the Estonian average; health care and social workers got 1681 kroons per month — 81% of the average.

In October, 1994, the government set the minimum cost of living for one person as low as 320 kroons or $27 per month (included in which is any possible housing subsidy). Bearing in mind the price level in Estonia, it is not possible to manage because the minimum price of the basket of goods on July 15, 1995 was $31.

According to the households income and expenditures survey, conducted by the EMOR (Estonian Market and Opinion Research Centre Ltd.), the average income per household member in June, 1995, amounted to 1524,29 kroons $128.

Distribution of respondent households % by the size of income per household member in June 1995:

smaller than the minimum wage	6,74 %
between 1 and 1.5 times the minimum wage	13,62 %
between 1.5 and 2 times the minimum wage	16,86 %
between 2 and 3 times the minimum wage	21,01 %
bigger than 3 times the minimum wage	41,77 %

The results of the survey show that the size of income per household member (which already includes the social benefits) of 37% of the Estonian population is very small, less than $76.

In order to keep from paying taxes (the income tax of a worker — 26% and social security tax of the employer — 33%), the informal economy pays wages in cash (without taxes). The extent of that payment is hard to determine and it may reach up to 10% of the total national wage.

In connection with the arrival of foreign investors in Estonia and their expectations to find cheap labour, there have been occasions where the foreign employers tried to pay less for the same work than is traditionally done in Estonia. There have been problems caused in concluding collective agreements, but so far these problems have been solved peacefully. There are also positive examples of the co-operation between the foreign owner and the workers where the owner's collective bargaining experience of the owner has been useful for our trade unions.

As well as the arrival of foreign investors, privatisation influences the wage level. By type of enterprises, the average gross wage according to the data of the last quarter of 1994 is the highest in joint ventures — 4793 kroons in month, which is twice the Estonian average, and the lowest in private enterprises, making up 40% of the average. As a rule, there are no trade unions in the enterprises operating according to both of the said forms of enterpreneurship.

Social security system

Due to the shortage of finance in the state budget and the necessity to keep it balanced, the contribution to social welfare and benefit is relatively small. The social security system is being reformed step by step. The aim is to move change from the anonymous and universalist system to a personal, flexible insurance system in order to take into account the wishes and resources as well as the share of every individual by the creation of national values. The new draft of the pension law has been completed with active participation of the trade unions.

All the unemployed in Estonia receive equally small unemployment benefit of 180 kroons per month $15. The unemployed do not receive any earnings-related benefits because the system of unemployment funds does not exist in Estonia and there is no money for it. In order to ease the economic problems of the unemployed, six federations of trade unions (23 federations of the Association of Estonian Trade Unions) have established unemployed benefit funds based on membership fees. The Transport and Road Workers' Union pays a monthly supplement to the state benefit which is bigger than the benefit itself. The problem of unemployment benefit is to be brought forward by the trade unions during the tripartite negotiations.

In social policy, the trade unions back the point of view that by providing social aid, the living standards of an individual should be taken into account to a greater extent which means that not everybody should get a subsidy in spite of their real income. The other tendency is directed towards higher wages and smaller subsidies whereby the number of people on benefit may also be diminished. The main aim of the trade unions is to solve social problems by way of social partnership.

4.2 Hungary, Sylvia Borbely

The effects of privatisation on the labour market

In Hungary, the major change to the labour market and to employment has come about not because of the privatisation itself, but because of factors relating to the transition to a market economy such as the fall in the output and economic growth (not at last as the consequence of the collapse of the COMECON market); trade liberalisation; the growing number of bankruptcies; and the rationalisation of production even before privatisation. Privatisation and the growth of unemployment are connected in the sense that this rationalisation — which caused in many cases more significant dismissals than the sell-off itself — can be considered as part of companies' preparation for privatisation. The number of employees had been reduced before and not after the selling of the company. This is the reason why the different researchers looking for the consequences of the privatisation for the labour market find that there is no strong straight correlation between privatisation and staff reduction.

Rationalisation leading to staff cuts in a company mostly occurred when the potential buyer was foreign. This phenomenon was not so typical in the case of self-privatisation, i.e. employees buy-outs.

As a consequence, in the majority of enterprises, a major change in the number of employees took place in 1990-1992, when the restructuring or transformation of the socialist enterprise into a share or limited or other form of company happened and the same privatisation process was slow.

These are the years when open unemployment, which was hitherto unknown in Hungary, began to appear and grow.

The significance of the transformation from enterprise into company was thus neglected by the employees as well as the unions. At the first cycle of privatisation, defending jobs had not been considered as a vital criterion by the decision-making State Property Agency during the evaluation of privatisation tenders, although the company-level trade union and in many cases even the management tried to enforce the employment issue. The Directives for Property Policy in 1992 also took account of the employment and social issues. This situation has changed more since the employment maintenance amendment in the privatisation tenders started to be more of a factor.

Theoretically, privatisation through the Hungarian ESOP — that is Employment Ownership Programme — seems to offer some kind of job protection for the participants. In reality, this kind of privatisation would not protect the employment in a given company. The employee-owner can still be fired. The need to produce sufficient surplus to repay the so called E-credit actually oblige the management to carry out sufficient rationalisation.

The effects of privatisation on industrial relations

The effects of privatisation on the interests of the employee organisations may be summarised as follows:

1. A fall in union membership, and a corresponding fall in union power within the companies. The situation is paradoxical: the fall in membership happens when — following privatisation — there appears to be a need for stronger unions at many different levels (bottom-up, branch and national level).

2. The fall in membership means fewer fees, a reduced budget for branch and national level confederations, and financial difficulties. The decreasing number of members and the financial restraints (for example, the lack of a strike fund) worsens the unions' bargaining position and reduces the resources at their disposal.

3. Privatisation through buy-out by employees or employees and management means that is the employee is owner at the same time.

4. After privatisation, the emphasis is on the traditional role of trade unions — i.e., collective bargaining in accordance with the growing importance of the collective agreements.

5. The employees have a role as social partners during the process of and after the privatisation: The forms and institutions through which workers' participate in the privatised (share holding or limited) companies are the same as in the state-owned companies. It is determined by the scope of the legally determined participatory rights of works councils; the rights of trade unions rights and their level of activity, and whatever is the main form of collective bargaining at different levels.

   Industrial relations within companies are regulated by the Labour Code (1992, Law no. XXII) and its revision (1995). The Labour Code regulates the employees' participatory rights. According to the law, they must be exercised through the works council (paragraph no. 42) in every workplace employing at least 50 people.[1] The trade unions can participate in the work of the election committee (paragraph no. 49) It must be emphasised that there is no obligation on the part of the union to participate, but if they want to put their representatives on the election list, the election committee cannot prevent this. The rights of works councils are rather limited. They have joint decision-making rights with the management only in one case: that is the use of financial resources for social and welfare purposes and the selling of real estates to this end. The agreement of works council is needed only in the case of the regulation of labour safety. There is much more room for the works councils giving their opinion. The employer is obliged to ask the opinion of the works councils in such topics as, for example, any planned measures which concern larger groups of employees (reorganisation, privatisation, rationalisation, modernisation, holiday planning, new work organisation). According to the law, the employer has to give information at least twice a year to the works councils on the basic issues of the economic situation of the company, as well as on investments, wages, the liquidity of the company, and employment prospects. The works council has no right to launch a strike nor to halt one. Although the laws undoubtedly provides the framework for employee participation, there are the following limitations:

   i) The Labour Code does not make it obligatory to negotiate a collective agreement at the workplace.

   ii) Collective bargaining is linked to trade unions. In a non-union workplace, there is no bargaining. This is a problem not only for small private or privatised workplaces.

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[1] The works council elections have takenplace in 1993 and in May 1995. The National Confederation of Hungarian Trade unions, the MSZOSZ received in 1993 71,6 % of all votes, in 1995 the MSZOSZ received 66,5 % and so has remained the major confederation in Hungary.

Results of works council elections in 1993 and 1995, in %

Confederations	1993	1995
MSZOSZ	71,6	66,5
Autonoms	18	20
Ligue	5,6	6,4
Workers Councils	2,2	2,4
Trade unions out of confederations	1,2	3,3

(Source: Magyar Hirlap, 30.08.1995)

Many of the collective agreements signed in 1995 contain no mention of a wage agreement. The explanation is that the employers do not want to commit themselves to offer a certain (high) wage level but when they can, they pay more than the collective agreement demands. This meant that where the wage agreements contain a wage rise commitment of 15 %, the real wage rise in the first half of 1995 was 20 %.

A survey by the National Labour Centre recorded 712 wage agreement signed by employers and trade unions in companies with more than 50 employees until June 30, 1995. The number of wage agreements in the first half of 1995 is 62 % more than in the same period of the previous year. The wage agreements of 1995 cover around 450,000 employees, which is only 20 % of employees of companies with more than 50 employees. (There are no data at all for small and medium-scale companies).

Most wage agreements contain a commitment to a rise in the basic salary (600 companies, 393,000 people) and 416 companies have signed agreement giving an increase in the average wage. But only 229 companies promised a minimum wage higher than the compulsory one (12.200 HUF). The higher minimum wage was 13.433 HUF in average. 185 companies (201,000 employees) signed agreements on the minimum wage level of different categories.

Minimum average wage level for the different categories in wage agreements, according to the average of the 185 companies with more than 50 employees for the first half of 1995, (in HUF)

managers	71,000
professional workers	20,000
auxiliary workers	13,000

The situation was worse at branch level in 1995. In 1994, there were 12 branch level collective and wage agreements; by June 1995 there had been none at all.

iii) Representativeness of trade unions. Only those unions which together get more than half of votes in the election of works councils can conclude collective agreements. If there is only one trade union to negotiate, its nominees have to acquire at least 65% of the votes. In both cases, the employees have to vote directly for the collective bargaining. It would be valid only where more than half of employees participate (paragraph no. 33).

6. Union involvement in the process of privatisation at micro level

Organisations representing employees during the privatisation process have the following rights:

i) Right to information

While in theory the unions have had the right to information and in some cases to agreement, in the majority of cases they have found it difficult to exercise these rights.

ii) Right to consultation

The unions have the right to be consulted before the privatisation takes place and have the right to approve the privatisation of the welfare institutions of the company.

iii) Employment issues

As a general rule, the former SPA had to invite tenders for privatisation. If would-be buyers applied formally and correctly, then the Directory Board of the SPA had to choose, taking into consideration different points of view (like the feasibility of the bid, the capacity to repay the credits, the practicality of the business plan), among which was the question of employment. The employment issue in a given company after privatisation has been taken into consideration by the Directory Board of SPA but only as a minor condition. Furthermore, in this sense the main problem is that after privatisation has been carried out, the trade unions have no means of enforcing the so-called employment amendment of the contract. The new owner can carry out any kind of rationalisation (including job cuts) without any financial or moral consequence.

iv) The unions may have an interest in the valuation of the company valuation and in the financial planning. But they have no right to be involved in their actual preparation, and in several cases the trade union organisations on the ground do not have the necessary expertise to be able to evaluate them professionally. The National Confederation of Hungarian Trade Unions (MSZOSZ), the national confederation with the biggest membership in Hungary, operates a counselling team which is able to offer professional help to the interested company unions.

7. Union involvement in the process of privatisation at macro level

At macro-economic level, trade unions may have a role in exerting influence to encourage the development of schemes which soften the possible adverse effects of privatisation.

i) Branch Committees of Privatisation

Since 1994, trade unions representatives have taken part in the Branch Committees of Privatisation (PAB), organs of the former SPA dealing with issues of privatisation of the different branches.

ii) Privatisation Committee of the Council of Interest Reconciliation

In Hungary, the Council of Interest Reconciliation deals with topics of privatisation at macro level. The privatisation committee of Council of Interest Reconciliation — the tripartite negotiating body of the social partners in Hungary — took a very active part in the preparation of the new law on privatisation which has been accepted by the parliament in May, 1995. Many of the recommendations made by the trade union side has been accepted and introduced in the text of the law.

The national confederations and unions act at macro level in the privatisation committee of the tripartite Council of Interest Reconciliation. The MSZOSZ, for example, has always emphasised the need to take the employment amendment more seriously; to reformulate trade unions rights as regards privatisation at the workplace; to make sure that the trade unions participate within the institutions dealing with privatisation; and to ensure the participation of the branch trade unions at the professional-branch privatisation committees working with the national privatisation agency, formerly the SPA. The objective would be for the branch unions to give their opinion before the appearance of a privatisation tender.

To sum up, it can be established that privatisation in itself has widened the role and sphere of activity of the social partners, although the extent of their influence is open to question.

8. The changing role of employees' organisations as social partners after the privatisation

i) The new role of employees as social partners in the privatised share company. Social partners in decision-making in the company.

According to the legal regulations, after privatisation the employees as social partners may have a role in the supervision of the enterprise through membership of the supervisory boards of the share companies. The employees have the right to nominate their representative on the supervisory board.

ii) In Hungary it has been seen that the privatisation by ESOP often represents a kind of hidden management buy-out or a kind of professional labour force buy-out of the company. It has to be added that the most successful cases of ESOP were when a relatively small company was bought by employees who have been generally highly qualified and have included the managers. Such companies are not generally characterised by strong trade union activity (as the way to solve the conflicts is mostly direct and interpersonal).

Moreover, the ESOP organisation (or trust) is not the field or place for conflicts between senior management and labour force as its duty is not to propose and make decisions concerning company strategy but to pay back the debt and manage the shares.

"Hungarian evidence suggests that employees in buy-outs have little influence in the governance of the firm but this may need to be balanced by an understanding of the implications of employees' demands for financial viability of individual enterprises. Hence, a particular role to be played by trade union organisations on supervisory boards concerns the management of conflicting views of employee and managerial members. This role may be particularly important where there is no other means by which management communicates directly with the body of employees. However, whilst there may be some initial resistance on the part of management to the influence of employee representatives, experience from elsewhere strongly suggests that management will need to develop formal means of communicating with employees as a whole for the effective management of an enterprise in the post-privatisation period. Rather than creating an entirely new communication channel, trade unions may provide an appropriate basis for fulfilling this need. (Karsai J. and Wright, M (1994) "Accountability, Governance and Finance in Hungarian Buy-outs" Europe-Asia Studies, 46(6).

Consequences of direct investment

The consequences of direct investment for the labour market depend on the type of investment. The foreign capital owner can take part in Hungarian privatisation, buying all or part of Hungarian companies, or can raise up a new development. In the former case, foreign investment had adverse effects when it came to so-called "market buy-outs". That is, the investor buys a certain company with the aim of closing it and filling the market with his own products. This happened, for example, at the first stage of Hungarian privatisation, which took place in the trade and retail trade sector. Foreign capital did frequently buy out a particular market and introduced its own product, crowding out Hungarian goods and workplaces too.

The other case is when the privatised company continues to operate. It may have even a positive effect on employment, mainly if the rationalisation has already been carried out before the sale of the company. If the investor is a big and wealthy multinational company, then he can spend money to alleviate the negative consequences of the necessary rationalisation by financing retraining or helping people find new jobs. (For example, when General Electric bought the Tungsram bulb company, it had a programme to help 5,000 people who lost their jobs.)

So-called green-field investments make a positive impact on labour market They offer new workplaces and in a number of cases exactly in the crisis regions where they are needed. It is due also to the fact that direct foreign capital comes to the region because of the cheap but well qualified labour force.

In most of the so-called professional investments, the investors bring not only their financial capital but also their own technology which may positively influence the working culture and the technological level.

Foreign direct investors usually bring in their top managers. This can lead to conflict between them and the other Hungarian managers. Many times, the Hungarian managers become passive, losing their sense of initiative, and simply waiting for the orders of the senior foreign managers. The latter do not always understand the special Hungarian conditions and attitudes.

The informal sector

The logic of the informal sector is against any regulation of industrial relations. It does not mean, of course, that in the informal sector there are no formal relations between employees and employer, merely that the relations between them are not regulated by the law (Labour Code) or by collective agreement. Consequently, these relations are not balanced. In a normal case, the unilateral dependence of the employee on the employer is counterbalanced or mitigated by such regulations as law and collective agreements. In the labour market in the informal sector, the relationship is absolutely free and corresponds solely to the requirements of supply and demand; there are no trade unions and no collective or individual formal agreement between employee and employer.

The high volume of informal sector activity in Hungary has a good deal to do with the present tax system, and the high level of taxes. This makes the price level of the Hungarian labour force questionable. Although the wage level of labour force is low by international standards, the taxes which the employer and the employee must pay are high (in total around 60 % of the pay-roll)[2].

While the high taxes stimulate tax evasion, the high level of unemployment, and particularly long-term unemployment, facilitates the operations of the informal sector. The long-term character of much unemployment means that a high percentage of the unemployed leave the system of unemployment protection. They are obliged to live on the basic social benefits offered by local government. As neither the unemployment benefit, nor the social benefit assures a decent living, the unemployed has to look for extra income, and has to look in the informal sector so as not to lose the right for benefits.

Grey employment and industrial relations

So called grey employment is takes place in the formal sector. This phenomenon can be defined as a paradox: it is a kind of informality within the formal sector. When grey employment happens, there are written contracts, and payment of taxes. But in so-called grey employment, the person is hired on the statutory minimum wage which is agreed by the social partners during the negotiations of Council of Interest Reconciliation every year. The written contract contains the minimum wage. So the minimum wage is the base to pay the tax too. In addition, there exists an agreement between the employer and employee whereby the employee gets a supplementary income on which social security contributions are not paid.

Another type of grey employment began to be popular this year. In this case, the employer does not hire the person but he works for the given employer like a private

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2 Employers pay 44 % of the pay-rolls and the employees-insured pay 10 % of their gross earnings as contribution to health and pension insurance. Furthermore they contribute also to the unemployment insurance. Within the 44 % 24,5 % of pay-rolls goes for the pension insurance and 19,5 % for the health insurance. Within the 10 % of the employees contribution 6 % of gross earnings goes for the pension and 4 % for the health insurance.

entrepreneur and presents invoices to the employer. The employer pays these invoices rather than a salary. The employee pays taxes like a small entrepreneur, (this year under rather favourable conditions), and also pays the social security contribution. The employer does not have to pay any social security (pension, health) contribution, nor any contribution to the unemployment fund.

The employee — or the quasi-employee — has to choose in this case between values between his short-term economic interest (maybe that in total by this way his net income is more than it would be otherwise or in another workplace) and his long-term social protection, like old-age pension or sickness benefit as their value is connected to the amount of the (taxed) legal wage. In many cases, the employee has no choice: he accepts the conditions offered by the employer, or remains or becomes unemployed.

Paradoxically, grey employment may be even in the interest of employee, for example, in the case when otherwise the employer of a venture with low or negative profitability could not employ him because of the heavy tax burden.

A proposal of the Confederation of the Hungarian Trade Unions would lessen the magnitude of the grey employment. The Bargaining Group (in the Council of Interest Reconciliation) proposes to introduce through the Council of Interest Reconciliation three different statutory minimum wages according to skills and qualifications, instead of today's sole statutory minimum wage An employee with higher education would be entitled to a higher statutory minimum wage than a professional worker or an auxiliary worker. Naturally the three-scale minimum wage would reduce the employer's room for manoeuvre in the field of grey employment.

This proposal is against the interest of the entrepreneurs and their representative organisations. The MSZOSZ's other proposal against grey employment is linked to a package elaborated by the finance minister. The idea is to introduce the above-mentioned graduated minimum wage-system as the basis of social security and tax payments by the employer. This idea was accepted as an amendment by the Parliament but was rejected by the Constitutional Court.

Tools of collective bargaining within the informal and the "grey" sector

Although in the purely informal sector, there is absolutely no collective bargaining, in the formal sector collective bargaining can reduce the incidence of grey employment at branch and workshop level. That is, a well prepared collective wage agreement as well as a collective agreement detailing the other rights of employees can fight against grey employment.

From this point of view, the establishment of minimum wage levels for different categories (managers, professional workers, auxiliary workers, etc.) in the wage agreements has particular importance. In 1995, out of 712 wage agreements only 185 covering a total of 201,000 employees contained clauses setting the minimum wage level of different categories.

The tools of collective bargaining that can be used against the informal sector can be summarised as follows:

- Statutory minimum wage negotiated through Council of Interest Reconciliation
- The proposal by MSZOSZ against grey employment: to introduce a graduated minimum wage as the basis of social security and tax payment by the employer (of 44 %).
- Collective agreements at macro and medium (branch) level. There is the new idea to give legal force (including in the Labour Code) to the collective agreements of a group of companies. It would be at a level between the branch and the company level. The introduction of the principle of collective agreements on the level of groups of enterprises would mean amending the Labour Code.
- Wage agreements for categories.
- Collective agreements at work places. Regulation of payment in kind, for example, working clothes, travelling expenses, private pension, etc.

4.3 Latvia: Lilija Babre

The development of Latvia's national economy is significantly influenced by external economic circumctances. This is felt especially keenly these days as Latvia undergoes the transition to a market economy. Apart from factors that are needed constantly (energy resources and imports of raw materials) the following aspects also have a greater impact:

- the importance of the external market in the development of Latvian industry;
- the role of exports of services, particularly in the development of transport services (railway, sea, pipelines);
- the need to import new technologies;
- the significance of foreign investment in the creation of the material base of the national economy;
- the role of financial mediation in the development of the country's banking system.

Problems in connection with foreign direct investment.

One of the basic preconditions for stimulating economic activity is an increase in both foreign direct investment and investment by the state.

Six years have passed since the first foreign investment was made in Latvia. A survey of activities of companies with a foreign share in their authorised capital is provided by the Enterprise Registry of the Republic of Latvia and Central Statistical Bureau of Latvia. Unfortunately, it is difficult to produce an exact estimate of the economic involvement of foreign companies in Latvia because the statistics available are not very comprehensive.

The situation is quite different when viewing the amount of investment into authorised capital. Business people from 85 countries had invested Ls 193 million in 5,419 registered companies of Republic of Latvia before March, 1995. Until the year, 1993, investments were within the limits of Ls 10 million each half-year period. Investments of about Ls 50 million in the second half of 1992 are associated with the greater prominence Latvia achieved after the proclamation of independence, and some individual big investment projects such as creation of "SIA Kellog Latvia" with the total investment of Ls 12.5 million. American companies made the biggest investments in 1991 and currently five out of the ten biggest investment projects are taken by US investors. The beginning of 1994 has seen the so far biggest investment so far, i.e. "SIA Lattelekom" in the field of communications This was made by a consortium known as Bridge Communications registered in Denmark and formed by Cable and Wireless from Great Britain and Finnish Telekom from Finland.

It must be generally concluded that the biggest potential foreign investors at the moment are adopting a "wait-and-see" policy which may be explained by the frequent changes of legislation and unsettled property issues.

As of March 1, 1995, (LVL 33.5 million) the biggest investments into the authorised capital of companies in Latvia other than from the USA were made by our closest and traditional partners in the Baltic region., i.e., Denmark, Germany, Sweden, Finland, Russia. There is also considerable input from companies in the United Kingdom, the Netherlands, Austria, Switzerland, and Ireland.

Russia takes the first place as to the number of investors, but tenth when it comes to the investment total. This means that the amount of each investment is quite small, which is also typical of investors from Poland, the Ukraine, Estonia, Lithuania and Belarus.

The distribution of foreign investments by type of activity indicates that the dominating position is taken by investments in trade and services

Investments into industry are comparatively small, although the big industrial companies with foreign capital employ the biggest number of workers. How many new jobs are created could become one of the most essential criteria in the evaluation and attraction of investment projects in future. At the moment, direct and portfolio investments are not distinguished from each other, so it is rather complicated to analyse investments in the financial and securities sector. Additional examination reveals the fact that a rather large number of investors and investment amounts come from "off-shore" and tax-free zones. Analysing this problem could be one of the tasks for the nearest future.

The biggest majority of companies with foreign capital are located in Riga or the Riga region. Riga attracts foreign business people as the biggest city in the Baltic and the capital of Latvia. The biggest industrial companies are concentrated there. the social and manufacturing infrastructure is developed best of all, and there is an adequate supply of skilled labour.

Statistics indicate that Estonia has attracted more foreign investment than either Lithuania or Latvia. In fact, the total foreign investment in Estonia has been approximately one and half times higher than foreign investments in Lithuania and Latvia put together. Estonia's lead is further emphasised by the fact that her population is the smallest of the Baltic states. Foreign investment per capita in Estonia amounts to around $200, which is over six times as much in the other Baltic countries. Scandinavia accounts for almost half of the total foreign investment in Estonia compared with only about 15 per cent in Latvia and five per cent in Lithuania. Russian investment in all the Baltic states remains at about ten per cent. A significant feature is the rather modest investment activity between the Baltic states themselves.

Trade unions took a positive view about drawing foreign investments into Latvia. Latvia has been an industrial and agricultural state with comparatively highly qualified work force.

Unfortunately, we now have to conclude that foreign investments do not favour the development of those branches vitally important for the national economy. The number of jobs has not grown, and not enough taxes are coming in. The trade unions want a development and investment programmes to boost the national economy. Unfortunately, such a state development programme cannot happen in Latvia yet. In our opinion, investment must be directed to the development of those branches of the economy which are especially important for jobs and for public services. These investments must help to balance the standard of living in different state regions. It must be also mentioned that sometimes these are completely new enterprises. That is why they do not have trade unions. In these cases employers try their best to prevent the establishment of trade unions.

On privatisation

A government declaration of September, 1994, was issued to activate privatisation throughout the whole national economy in order to create a favourable environment for the functioning of private capital as fast as possible, attract investment for the development of the country's economy and reduce the business activities of state and local authorities.

Work on putting down legislation on the denationalisation of state and municipal property is continuing.

According to information available at the Ministry of Economy 441 (25.4%) trade, 111 (15.8%) public catering, and 330 (31.9%) household service facilities have been privatised, and 1,043 (60.2%) trade, 332 (45.9%) public catering and 646 (62.5%) household service facilities have been leased to private entrepreneurs.

Our legislation stipulates that when privatising state enterprises, the privatisation commissions must include the trade union representatives of this enterprise. Trade unions are making that the employees get their part of enterprise shares and that the labour contracts concluded with the previous employer remain valid. We have got an agreement that where the new owner violates the privatisation plan and cuts jobs, he must pay the penalty for each job lost. This sum corresponds to the training expenses of the redundant workers.

A profit-free joint stock company, the Privatisation Agency, was founded to help the privatisation process.

LBAS co-operates closely with this agency. We have received the lists of firms that are to be sold off, which allows us to contact our union activists in enterprises to ensure better preparation for privatisation. The Privatisation Agency itself insists that union representatives are included in privatisation commissions. There is only one case this year when the enterprise has tried to avoid this.

The problems arise in cases when the state enterprises owing wages and social tax payments are liquidated. We have elaborated and handed in to the Tripartite Consultative Council proposals to deduct these payments firstly from the centralised resources of state enterprises which form the special fund at the Privatisation Agency; later these expenses can be collected from the privatised enterprise.

The Cabinet of Ministers has accepted a law "On Privatisation of State and Municipal Housing"

Trade unions succeeded in ensuring that there was no forced privatisation laid down in the law. The privatisation of flats will be done by the privatisation certificates assigned to the inhabitants and on their own choosing. We also insist that the prices of the flats enables most people to take possession with just their certificates and at no extra cost. Unfortunately now the real price of these certificates is more than 20 times less than the price determined by the state.

The informal sector

The rapid decline of production in all branches of the national economy between 1991 and 1993 led to badly strained relations in the economic and social area, negatively affected living standards, and worsened the of employment situation. In 1994, some stabilisation of economy was achieved by keeping a rather low level of production and it was impossible to do much to improve people's finances.

Unemployment figures have been steadily growing, since registration of the unemployed was begun in January 1992.

The share of unemployed in the total economically active population according to data from the Central Statistical Bureau in August 1995 reached 6.4 % or approximately 84,000 people. Although this figure is considerably higher than in Estonia and Lithuania, it is still lower than in many East European countries.

The structure of unemployed by age and education is continuously changing. But already now it can be concluded that more and more of the registered unemployed are unqualified young people (aged from 15 to 24), and there are fewer unemployed with higher education and vocational education qualifications..

Unemployment affects all nationalities. The structure of unemployed by nationalities corresponds to the national structure of the country's work force (Latvians - 47.2 %, Russians -38.2 %).

Statistical data show that the number of people employed by state companies, institutions and organisations is decreasing and that of people employed in private companies is growing. In total, during the last year the overall number of employed in the country has decreased by approximately 40,000 people.

The reduction in the number of employees is linked to both the population decrease and the increase in unemployment.

There are considerable regional distinctions within the total unemployment: in Riga, the rate is 2.2 %, whereas in some rural districts it is between 23-25 %. Union representatives take part in the government working group for the development of small and medium enterprises. As mentioned before we try to set in place the necessary economic, financial and legal conditions to encourage enterprises to develop in the regions mostly touched by unemployment.

Apart from the officially registered unemployment there is also the so-called hidden unemployment which is associated with involuntary work stoppages, forced unpaid leave at companies and a reduction in the working week. There are no official statistics on this.

According to the rough estimates of the State Employment Service, hidden unemployment might total 6-7 per cent of the economically active population. The unions say this percentage could be higher because according to the information available by Ministry of Finance the share of informal sector in the GDP is 20-25 per cent.

There is a wide-spread problem of employees of private structures are being employed without a proper contract, leaving people completely legally unprotected. They can be dismissed at any time; they are made to work from 10-12 and even more hours a day; they are not given holidays, they are not granted leave, they are not paid children allowances and sick-benefits, etc. They cannot also receive any unemployment benefits because they cannot prove their employment status. Neither the workers themselves nor the employers pay the social taxes. That is why the social budget is not filling up and there is a lack of resources necessary for the payments of pensions and benefits, etc.

The unsettled labour relations mean that the wages are shown smaller than they are in reality. It means that the employer does not pay income tax which in its turn worsens the state budget. This problem concerns the state enterprises as well, where, like in private enterprises, there often exist so-called double accountancy. According to statistical data, about two thirds of employees employed in private sector receive the minimum wage — 28 lats or $56 per month.

State services consider that dismissals will mainly take place in big cities. Unfortunately, there is no real job-creation programme in Latvia. Nor legislation plan any effective measures to get rid of the illegalities. And even the court awards are not complied with.

Because of the acceleration of privatisation, and the surplus work force kept by many state-owned companies, a further rise in unemployment is expected in 1995. As proved by research into Latvia forestry sector done in the framework of the PHARE programme, many companies employ four to five times more people than needed to do the job. This also to a certain extent happens in private companies.

4.4 Lithuania, Grazina Gruzdiena

The period since Lithuania's declaration of independence (2 March, 1990) has been extremely complex both politically and economically and these events have naturally had a major impact on developments in society and the labour movement. The transition to democracy has proved painful as there was no time for a process of natural evolution.

Lithuania, like other post-communist states, is undergoing radical reforms and facing challenges that are without precedent in its history. The long-term aim of the reforms is to bring the standard of living up to the level of developed countries, by establishing a democratic market economy. But the transition has given rise to unprecedented and extremely complex social problems.

The socialist system that existed in Lithuania before the advent of reform guaranteed lifetime employment, a developed social security net and a basic equality in living standards. These benefits were maintained, however, by the kind of inefficient system characteristic of totalitarian regimes: nominally "full" employment, wage-levelling and all-pervasive control by the state. These weaknesses eventually destroyed the system, along with all the built-in social guarantees which it had provided. The development of the market economy was accompanied by increasing inequality, unemployment and poverty so that people began to experience great insecurity in their everyday lives.

The pervasive state regulation and control under socialism had created psychological dependency in many people. With the collapse of socialism, these people began to feel insecure and they demanded continued protection from the state. Others, meanwhile, claimed that any form of state control was oppressive. Failing to distinguish between democracy and chaos, they viewed the new Lithuanian laws in the same light as those of the earlier period. Such an attitude led to a marked increase in crime and anti-social behaviour.

At the beginning of 1995, the estimated population of Lithuania was 3,718,000. The population structure is similar to that of most European countries and is characterised by a high degree of urbanisation, accelerated ageing, and an imbalance between men and women (women account for 52.8% of the population). In 1994, 56.5% of the population were of working age and 20.2% of retirement age.

Employment has been falling every year since 1989. Employed people accounted for 47.7% of the total population in 1993 and for approximately 45% in 1994. By mid-1994, there were 8.9% fewer workers than in 1989. Some categories of employees have been particularly vulnerable during the reforms, among them women formerly employed in centralised planning, elderly women employed in industry, workers with disabilities, and young people with no professional experience. People in these categories were the first to lose their jobs. An unofficial "shadow" economy began to emerge, attracting ever more labour resources.

The educational level of the Lithuanian labour force is high, with as many as 25% having received university or further education. However, many Lithuanians unfortunately know no foreign language other than Russian, though the situation in this respect is improving rapidly now that people are increasingly studying foreign languages.

As early as 1990, the number of employees in the state sector began to fall significantly, with a corresponding growth in the private sector and joint stock companies. This process is continuing as privatisation programmes are implemented. The private sector employed 10% of all workers in 1989, 56% by the end of 1993 and 64% in 1994. This growth is due less to a rapid development of new private enterprises than to changes of ownership in existing enterprises.

According to a unique Lithuanian "invention", when state property is privatised, workers are allowed to purchase up to 50% of the shares in the company. The worker thus becomes owner and employee at one and the same time. In the early stages, people had plenty of illusions about becoming rich and did not know on which side they should be in the collective bargaining process.

The working population includes more women than men. In 1993, women formed 52% of the labour force; 95% of all working-aged women were employed in comparison with only 82% of working-aged men.

By 1993, industrial production had dropped to only 25% of its 1989 level and it is decreasing far more rapidly than employment in industry. In 1993 alone, the number of employees fell by 16%, while production fell by 58%. The same phenomenon can be seen in other Eastern and Western countries. Employment is most stable in food and beverage production, which employs 17% of industrial workers, textiles (14%), and machine tools/equipment (10%). The situation is worst in electronics, machine construction and metalworking, which are dominated by large enterprises with over 1,000 employees, obsolete equipment and low productivity. During the second half of 1993, agricultural output dropped and nearly half the dairy and meat processing plants had to reduce their workforces. The drop in employment in industry coincided with a rise in employment in services.

When the economic reforms started, employment in industry accounted for 30% of total employment, agriculture for 18% and construction for 12%. During the reforms, employment in industry and construction fell sharply, while the number of employees in trade and financial services increased. Between 1989 and 1994, employment fell by 35% in industry, by 45% in construction and by 40% in transportation. Employment rose by 43% in trade and by 60% in financial and business services.

To analyse the real state of the labour market, the potential labour force may be divided into three categories: those who are working, whether under an employment contract or in a self-employed capacity; those not working and registered at the labour exchange as job seekers; and other able-bodied people. Financial difficulties have forced many enterprises to decrease their level of operations and to put employees on unpaid leave. But they encounter difficulties in dismissing workers who are no longer needed. Under the Law on Labour Contracts, an employer has to give a dismissed employee a severance payment of between one and eighteen months' salary. As many enterprises cannot afford this, they prefer, rather than paying out several months' salary in order to dismiss workers, to keep their surplus employees on the payroll and pay a minimum wage, or to put them on unpaid leave. Accordingly, hidden unemployment has been shown to be substantially higher than the official figures.

Under Lithuanian law not everyone who registers with the labour exchange can obtain unemployment benefit. Benefit is payable only to those officially classified as unemployed. Under the terms of the Law on Employment, people of working age are considered unemployed if, through circumstances beyond their control, they have no income and have registered with the labour exchange as seeking, and being in a position to hold down, a job appropriate to their skills and state of health. People without unemployment status are registered as "non-workers". Accordingly, the labour exchange gives two sets of figures.

After the economic reforms started, some efforts were made to prepare for the foreseeable rise in unemployment. The Law on Employment, adopted in 1990, defined unemployment status, outlined the structure of the labour exchanges and laid the ground for their activities.

After the restoration of independence, wage restructuring and differentiation gathered speed. In early 1991, a law was passed on Salaries and Wages, granting enterprises and organisations the right to regulate wages themselves. The same law authorised the government to set a minimum monthly wage applicable to full-time employees. This minimum wage stood at $16.5 in December, 1994, and rose to $37 in July, 1995. The average monthly wage had been rising steadily, by 2-3% every year until 1990, while prices of goods and services had remained virtually stable. From 1991 onwards, average wages, before tax, began to rise rapidly: they rose by two to three times in 1991, seven to five in 1992, two to three times in 1993 — and merely doubled in 1994. Prices, meanwhile, were rising even faster. The rate of inflation was 383% in 1991, 1163% in 1992, 189% in 1993, and a comparatively low 45% in 1994. For 1995, the official forecast is 35%.

The fall in real wages can be demonstrated by calculating the quantity and type of products that can be purchased with an average net wage (after tax). In 1993, the average wage bought three to four times fewer products than in 1990. The situation was at its worst in 1992 and improved slightly in 1994.

Constraints on the state budget have led to tremendous differentials between wages in the profit-making enterprises and those in the state sector funded by the budget; in 1993 this latter sector employed 19% of the labour force. In 1989 the average wage in the budget-financed sector was 73% of that in profit-making enterprises; by 1993 it was no more than 50%.

The first steps towards social reform in Lithuania were taken in 1990, when new legislation laid the foundations for the division of social security into two systems: on the one hand, state social insurance, with a separate budget and a centralised administration, and, on the other hand, the welfare and social assistance system, which was designed to be decentralised and accountable to the local municipal administration. The creation of supplementary social security systems (e.g. private schemes or those for employees in certain occupations) is considered desirable but, at present, such systems have barely moved beyond the drawing board. They lack an appropriate basis in law, the requisite experience, and individuals and enterprises able to afford additional insurance, alongside the compulsory payments.

People over retirement age account for a fifth of the country's population. This high proportion is the result of the early retirement age (55 years for women and 60 for men) in force until this year. The claim that the burden of economic crisis was fairly shared between workers and pensioners could be undermined by examining the changes in the numbers of social security contributors. Lithuania's pension fund is financed by social contributions from wages, but of those who work only 76% pay the compulsory social security contributions.

Over a short period of time, Lithuania has introduced the main prerequisites of a democratic society, such as a multi-party system, free elections, freedom of the press and freedom of speech. One healthy indication of an emerging civil society is the appearance of nearly 1,000 different broad-based non-governmental organisations, most of which are dependent on voluntary contributions from their membership. One such organisation is the trade unions which, before the declaration of independence, were run by the State, wielded considerable influence and acquired substantial resources. At the present time, however, they are engaged in a struggle to find a constructive role in society.

Sources :

1. Lithuanian Human Development report 1995 and
2. Economic and Social Development in Lithuania — January-July 1995

4.5 Poland, Janusz Michalski

The creation of a market economy in Poland involves new issues concerning the managing of workforces in the enterprises. It is very important nowadays to note that, after the collapse of the central planned economy which had such characteristic features as a great imbalance in labour demand, apparently fully employment and very low productivity of labour, conditions of employment in enterprises and on the labour market have generally been changing since 1989.

The move to a market economy is carried out in two general ways: economic stabilisation (an anti-inflationary programme) and privatisation of state-owned enterprises. Both of them are accompanied by new trends in the labour market: emerging high and long-term unemployment, and mass unemployment. One should remember that market forces and free competition have a similar influence on productivity and economic condition for public and private companies. Irrespective of the form of ownership, every enterprise takes among various decisions many choices concerning managing the workforce (size, structure of qualification, time of work, compensation, conditions of employment etc.). These choices are taken mostly as a result of economic decisions associated with maintaining production, the introduction of new technology, and investment etc.

We can formulate the main factors determining the level of employment in an enterprise in two categories: those within enterprises and those outside.

Among the factors placed inside we distinguish:

1. The production programme and the cost of labour
2. The technology available
3. The length of working time
4. The organisation of production and of the enterprise
5. The economic and financial conditions of the enterprise and productivity
6. The management system
7. The position of trade unions and industrial relations

The external factors are as follows:

- The actual stabilisation policies which determine the economic condition of enterprises
- liquidation and bankruptcy, or adjustment and development (wage policy, financial policy, fiscal policy, monetary policy)
- privatisation of state-owned enterprises (acquisition of active investors)
- actual regulation in the scope of labour relations, and labour standards

The condition of enterprises since the process of transforming the old economy into a market economy was launched is limited by the anti-inflationary programme based on budget constraints restricting subsidies to SOEs (State Owned Enterprises). sharp fiscal and financial limitation and trade liberalisation. Those instrument caused reorientation philosophy of economic activity of enterprise and demand, from consumption demand to investment demand , and forced to reduction of workplace costs.

Others factors included the collapse of trade among COMECON (Council of Mutual Economic Assistance) countries. Domestic production could not compete with imported goods. Also, the structure of industry appeared very ineffective and uncompetitive compared to the structure of industries in the western economies.

Limitation of demand led to recession which affected the level of employment in Polish enterprises. In order to maintain the position on the market, and facing the prospect of declining economic performance, they felt they had no choice but to carry out massive lay-offs. Other reasons for the worsening economic conditions of SOEs were the fiscal policy, which seemed very restrictive and burdensome, and damages to the financial system of enterprises. For instance, in 1991, the financial and fiscal burden facing enterprises through income tax, dividends, wages and taxation were two times higher than 1990. That was the main reason for liquidation and bankruptcy. Frequently, privatisation was the only way out of the financial troubles. Massive unemployment emerged in the first years of the nineties, and reached 16.2 % (July 1995 15.3 %). Workers sacked in lay-off made 18,3 % of the total number of jobless in 1991; by 1992, this share had risen to 26 %.

In July, 1995, unemployment stood at 2,720,000. Characteristic features of Polish unemployment appeared: long term unemployment; a 50 % cut in the number of those entitled to unemployment benefit, who were dominated by women and unskilled people, as well as young people who had left schools and universities. The share of people employed in private sector had risen to 60,1 %

It seemed that the high supply of workers available involved substantial changes in enterprises' behaviour towards substituting low-skilled and qualified workers with high-skilled. We observe the move of workers in one direction only — out of a job..

We can also observe a real improvement in work discipline.

Labour standards and employment

The Polish government is recognised as being mostly responsible for manpower policy and since 1990 has been introduced many regulations on labour standards.

1. A bill on employment and unemployment containing provisions about: employment administration (council, agencies); unemployment benefits; a Labour Fund; job-consulting, labour exchange offices; employment of workers out of Poland; and foreigners in Poland
2. A bill on lay-offs, containing clause on conditions and procedures for carrying out lay-offs (10 % of workers)
3. A bill about social assistance, setting out the principles for assigning allowances to poor people
4. A Trade Union bill containing provisions on principles of establishing trade union rights and commitments of trade union organisation as follow:
   - the right to be consulted;
   - the right to act on legislation initiatives concerning labour and trade union issues;
   - the right to act in courts;
   - the right to have control over abide by labour regulations;
   - the right to negotiate and conclude collective negotiations.
5. A bill on resolving collective disputes, and on the background of employment and work conditions, containing criteria of representation, negotiation, mediation, and strike provisions
6. A Labour Code, containing particular provisions concerning collective agreements.
7. A bill on the enterprise fund of social benefits
8. The establishment of a Social and Economic Tripartite Commission

In the above-mentioned context, it is worth evaluating, in very general terms, the role of the trade union, Solidarity. In the process of transformation to a market economy based upon possibly extending private property, the traditional role of trade unions has to be changed from a merely protective function in enterprises to participating and functioning at company level and on the macro-scale. The present activities of Solidarity can be considered in the following areas:

- maintaining and defending Solidarity structures in private and privatised enterprises
- protecting employment and working condition
- protecting the right to be consulted about any questions concerning the appropriate privatisation path
- protecting workers' rights to employee-ownership
- controlling the company's economic performance through workers' participation in the supervisory board,
- resolving disputes and conflicts associated with the privatisation of SOEs

- evaluating proposals of economic and social regulation within the framework of Economic-Social Tripartite Commission,
- organising and running training programmes on the legal and economic bases of transformation
- providing legal and economic service and intervention.

As part of its campaign for employment, in 1993 Solidarity, representatives of employers and government together organised and conducted tripartite negotiations called "A Pact on enterprises in transition" The final results of these negotiations were: a draft Bill on privatisation (which allowed for the decentralisation of privatisation decisions), and procedures giving workers the opportunity to work out and implement their own privatisation programmes. Although these negotiations were completed in April, 1993, no further action was taken in the two years that followed, and the draft Bill never become law. Political changes have since taken place. The new government and parliament, both comprising former communist leaders, have decided to reject the above-mentioned Bill and instead have embarked upon an entirely new process.

Another product of the Pact on Enterprise in transition was a draft amendment to the Labour Code, which was devoted to collective bargaining and collective agreements. This draft was passed by parliament in September, 1994. Since 1995, many issues concerning condition of employment and labour, which until 1994 had been resolved at central level, are to be dealt with by collective agreement on the company level. The state's responsibility is limited to setting minimum standards and guarantees only

Condition of employment concerning the place, time and system of payment for work set by these company agreements cannot be less beneficial than those general employment duties and guarantees set by the state.

The contract will define:

- conditions to be fulfilled relating to the substance of employment
- mutual obligations
- ways of resolving disputes that emerged at the time the agreements were concluded.

How the changes affect employment at enterprise level

In the process of transformation from a central planed economy to a market-oriented system, it is most important to know whether the changes occurring in the development of the company can result creation of new work places. Investment and the growth capacity of the enterprise depend basically on the economic and financial condition of the company, and its opportunities to acquire the necessary financial resources from the banking system. In 1994, the Polish economy faced a level of economic activity higher than in 1993. The economic and financial conditions of enterprises were much better. As a result of financial restructuring of debt, many industrial companies obtained more resources, thereby boosting investment and demand. In comparison to 1993, there has been a rise in the share of enterprises showing a net profit (from 51% to 57%).. In generally, the viability of private and public companies has seen a positive change. Conversion or the cutting of debt, and the opportunity to get tax reductions (in the case of investment purchase) had some impact in extending investment activity. According to the GUS (Central Statistic Office), the estimated amount of investment expenditures has risen by 6% in 1994. Assets investment rose by 8% (in 1993 by 2.9 %, and in 1992 by 2,3 %) We see also a rising trend in purchasing of domestic investments goods.

Expenditures for investment in the construction branches were lower by approximately 14 % — proof of a deep crisis in house-building.

We must remember that Gross Domestic Product in our country has been rising since 1992. In 1994 GDP rose by approximately 5 % in comparison to 1993 (in 1993 by 3,8, and in 1992 by 2.6 %) and is about 4 % higher than the 1990 level

Unfortunately, the stabilisation programme as regards monetary policy, interest rate policy and the need for a rising and broadening of credits on offer for the enterprise sector is not so satisfactory. Inflation in 1994 has been reduced to 32.2 %. When adjusted for inflation, the interest rate is still very high (33 %). This level remain a daunting barrier to investment confidence among both public and private companies. Taking into consideration the fact that the debt burden of recent years remains still quite important for enterprises, and that the chance of financing development from profits remains rather low, the condition for creating any new jobs are still very poor in 1995-1996.

4.6 The Slovak Republic, Magda Forrova, Heikki Aintila

Political situation

The second post-communist parliamentary elections in the Slovak part of Czechoslovakia were held in June, 1992. These elections were won by the "Movement for a Democratic Slovakia" led by Mr. Meciar who then started to campaign for the splitting of Czechoslovakia into two parts. After Czechoslovakia's separation at the end of 1992, the political scene in the Slovak Republic became unstable. The republic was born without preparation and without the consent of the majority. The Slovak government started to pursue different policies to the Czech government, going for less restrictive economic policies and a slowdown to privatisation, while giving priority to more traditional privatisation models of privatisation. After a long period of political instability, the government of Mr. Meciar fell in March, 1994, after losing a no-confidence vote in parliament. The new coalition government of Mr. Moravcik was short-lived because the political situation remained very unstable.

Extraordinary parliamentary elections were held at the end of September, 1994.

Again, the "Movement for a Democratic Slovakia" party of Mr. Meciar was the winner. Since mid-December, 1994, Mr. Meciar has led a coalition government consisting of his "Movement for a Democratic Slovakia", the nationalistic "Slovak National Party" and the populist "Association of Slovak Workers". This coalition government holds 83 out of 150 parliamentary seats. Nationalism is the main ideology of this government.

The European Treaty between the EU and the Slovak Republic came into force at the beginning of February, 1995. In June, 1995, the Slovak government submitted a formal request for EU membership.

Economic performance

The "Velvet Revolution" in Czechoslovakia, November, 1989, brought in a liberal federal government, which immediately devalued the Czechoslovak crown in relation to the convertible currencies, revalued the crown in relation to the Soviet rouble, and tightened budgetary policies for 1990. However, the transformation process was delayed by one year because the federal governments of the Czechs and of Slovakia could not agree on the details of the transformation policies. As in other CEECs, this transformation was carried out in the context of disintegration of COMECON and decline in economic activity of the former trading partners. The first shock for Czechoslovakia was the unification of Germany because East Germany was a major trading partner. Further shocks came from the collapse of the Soviet economy and the reduced demand from the former trading partners. The final shock was the separation of the Czechoslovakia into two republics at the beginning of 1993. The inability to keep a single currency and the gradual erection of trade barriers reduced trade between the two republics.*(Simon Commander and Fabrizio Coricelli: Unemployment, restructuring, and the Labor Market in Eastern Europe and Russia, 1995)*

Between 1990 and 1992, even before the separation, Slovakia was hit by a severe crisis. Measured in real terms, GDP shrank by a fifth. The fall of the COMECON markets hit the two republics differently. Slovakia was hit harder because the industrialisation of Slovakia occurred during the communist regime and much of its industrial production was planned for the needs of its COMECON trading partners. Forty per cent of Czechoslovakia's trade with the USSR was concentrated in the Slovak Republic. The Slovak Republic was, therefore, particularly affected by the collapse of the USSR's trade with its former COMECON partners.

However, in 1993, for the first time since the economic transformation began, there were clear signs of economic recovery in Slovakia, and in 1994, GDP grew by 4.8 per cent. In 1995, growth is estimated to be around 5 per cent. Despite the growth in GDP, however, the level of economic output was still about 20 per cent lower in 1994 than before the transition began. The important thing is that this growth trend seems to have taken hold but maintaining the high level of growth requires continuing progress in the restructuring and privatisation of large state-owned enterprises and in creating a new market-based institutional framework.

The other positive tendencies during 1994 were lower inflation, though it was still between 12 -15 per cent, and a better external trade balance.

Labour markets

Until 1991, the labour market situation in Slovakia was virtually indistinguishable from the situation in the Czech part of the Republic. After that the situation in the Slovakia diverged substantially and started to display problems similar to those of other economies in transition. The unemployment rate rose from virtually zero to more than 10 per cent. In 1994, the unemployment rate rose to 14.8 per cent. In the first half of 1995, there were first significant signs of a reduction in unemployment in Slovakia. However, there is a question over whether the fall in unemployment can be maintained in the face of privatisation and restructuring of large state enterprises that remain to be accomplished in the Slovak Republic.

Long-term unemployment, the proportion of the unemployed who had been out of work for a year or more, showed a less welcome trend in the Slovak Republic. The problem worsened considerably, with the proportion rising from 32 per cent at the end of 1993 to 54 per cent in the second quarter of 1995 (*Employment Observatory: Central & Eastern Europe, No 7 and 8, 1995*).

Foreign direct investment

Macroeconomic equilibrium, social stability, and the industrial traditions of Czechoslovakia were seen as particularly attractive to foreign investors. After the separation of the CSFR, it was expected that both Republics would benefit from increased investor confidence. However, the development of foreign direct investment in both Republics has diverged considerably, in favour for the Czech Republic.

Direct investment in nearly all Central and Eastern European countries has risen as Western European economies have recovered from recession. Similarly, in Slovakia, foreign direct investment rose by 54 per cent between the beginning and end of 1994. In total, investment amounted to $520 million up to December, 1994, going into 7,200 enterprises. During the first half of 1995, the growth in direct investments slowed to 6 per cent.

During 1994, Germany overtook Austria as the biggest foreign investor in Slovakia, accounting for more than 20 per cent of the total foreign direct investment. Other important investing countries are the Czech Republic, France and the USA. At the end of 1994, over half these investments went into manufacturing industry, 23 per cent into retail trading, 8.5 per cent into financial services and 5.5 per cent into consultancy. The most important investors are KMART, Volkswagen, Mölnycke, Samsung-Calex, Degussa and Hoechst-Biotica.

The inflow of foreign direct investment into the Slovak Republic has been disappointing over the last five years. At first, the foreign investors were attracted by privatisation programmes. The slowdown of privatisation last year may explain part of the decrease in investors' confidence.

Privatisation

Perhaps the most significant shift in the policy stance adopted by the Slovak government of Mr. Meciar after the 1994 election was the change in privatisation policies. The second wave of voucher privatisation, which began in September, 1994, was suspended by the government in December, 1994. Then last summer, the parliament passed a law ending the mass voucher privatisation programme. The new law gives control of privatisation to the National Property Fund, which is a state privatisation agency. The law also closed down the investment funds created for the latest voucher privatisation programme. The law compensates some 3.5 million Slovaks who registered for the second voucher programme by giving them five-year government bonds worth $345 million. President Kovac returned the law unsigned to Parliament. In a September parliamentary session, the returned laws were adopted unchanged.

However, the privatisation programme is continuing at a fair pace. The usual form is management privatisation. There are some doubts about the wisdom of this approach. Nevertheless, the National Property Fund has transferred some Sk 30 billion ($1 billion) worth of state assets to the private sector during 1995.

This new approach to privatisation has created a mix of private and quasi-private large firms alongside state-owned enterprises because many Slovak enterprises were involved in the first wave of voucher privatisation, and are in the process of becoming private enterprises. If the privatisation of the remaining state-owned enterprises will take some more years, these different types of enterprises will coexist and compete with each other.

The private sector share of the GDP has grown from 39 per cent at the end of 1993 to 58.2 per cent at the end of 1994 and was higher in retail (89.4%) and construction (79.3%) than in manufacturing (56.3%).

A greater inflow of foreign investment is expected. Germany became the largest investor, followed by Austria, the Czech Republic, the USA and France. The level of invested capital at the end of 1994 was estimated to total about $552 million. Fifty-three per cent of foreign investment was in industry, 23% in retail trading, 8.5% in financial services and 5.5% in consulting.

* * * * *

Annex

TUAC: Foreign Direct Investment and Globalisation: OECD Policy Developments and the TUAC Response

In May, 1995, the OECD Ministerial Council agreed to *"the immediate start of negotiations in the OECD aimed at reaching a Multilateral Agreement on Investment by the Ministerial Meeting of 1997..."*.

Introduction

The pace of economic globalisation is both increasing and its coverage widening, irrespective of general macroeconomic trends. Though the bulk of FDI is presently intra-OECD, non-OECD countries are becoming important recipients of OECD investment flows, and intra-regional investment flows are also increasing. The completion of a new OECD investment agreement will boost these flows, but its importance will spread far beyond the OECD, as non-Member economies, including many transition economies, accede to the new agreement and further liberalise their investment regimes.

Multinational companies (MNEs), are at the forefront of globalisation. These companies, whether global corporations or, as is increasingly the case, small and medium size firms (SMEs), are importing new working practices and industrial relations systems into countries in their wake. For many workers, these activities will bring gains in terms of employment, better wages and labour standards. However, for many others, the opposite will hold as MNEs seek out ever lower wages and labour standards to retain a competitive edge in the global marketplace. In the face of demands from MNEs, governments, whether in the North, South, East, or West may be forced to deny trade union rights to their populations to attract footloose investment. It is, therefore, important that trade unions are aware of developments in this area. This TUAC paper will outline those developments happening at the OECD in the area of international investment, discuss the importance of this for workers and their trade unions, and then set out the TUAC response.

Why a new Multilateral Agreement on Investment (MAI) ?

The global environment for FDI has been changing at an ever-increasing pace, and the following gives a snapshot of the changes taking place. Throughout the 1980s, international trade grew twice as fast as domestic production, yet FDI grew three times as fast foreign trade. Following a pause in the early 1990s (due to the world recession), FDI flows increased through 1993 to grow by 11 per cent in 1994 to $196 billion. Within this, sectoral changes have occurred, e.g., in many countries (notably the OECD and the dynamic Asian economies) the shift has been away from manufactures to services, while in others it has been towards manufacturing and away from primary production.

The forces driving this, though seemingly different are interlinked. There has been a conjunction of market-led factors and government policy reforms combined with geopolitical changes. Firms have become increasingly globalised in the search for new markets, a factor facilitated by technological change and dramatic reductions in transport and communications costs. Capital market developments have at the same time given a boost to cross border mergers and acquisitions, whilst spiralling R&D costs have driven many companies to make strategic alliances (chemicals, pharmaceuticals and automobiles, for example). These factors have also combined to shift the profile of the typical MNE, with giant corporations being joined by SMEs in the global marketplace — nowhere more so than in the CEECs, where SMEs appear to dominate FDI.

At the same time, governments have been steadily opening up their economies to foreign-owned firms, partly as an answer to the crisis of unemployment, and partly as a response to ideological shifts in favour of a more liberal trading environment. Although the speed of economic liberalisation has differed across countries, the underlying factors driving this have been the same: the liberalisation of investment regimes including capital markets; deregulation of product and services markets; privatisation of core industries and public services; the dismantling or outright abolition of exchange controls on currency movements; and a trend towards regional/bilateral trade/investment agreements (e.g., the Single European Market, APEC, NAFTA).

Overarching these developments stands the fall of the Berlin Wall and the end of the Cold War, plus the reintegration of China into the global market economy. The opening up of the former communist economies, along with the desire of their governments to attract much-needed capital and technology has changed forever the landscape for international trade and investment.

Trade unions when faced with these global changes need to be aware of the reality that lies behind them in order to develop policies to help their members, and enter into a dialogue with employers and governments to ameliorate their negative effects. As noted above, intra-OECD investment still accounts for the bulk of the flows, yet flows to the non-OECD area are increasing again. After peaking in 1984 at around 25 per cent of total investment flows, the share of OECD investment going to the non-OECD declined to approximately 17 per cent in 1990. This reflected the debt crisis of the early 1980s and the associated depletion of bank balance sheets. However, from 1990 onward, FDI flows recovered and levelled off at around 22 per cent in 1994.

There is a concentration of OECD FDI in ten non-OECD countries, with most going to Latin America and South-East Asia. Whilst the share flowing to Central and Eastern Europe has risen, this is from a low base and is concentrated in a few key sectors. The reasons cited for this include: an unstable political climate including widespread corruption in many countries; botched privatisation programmes; underdeveloped capital markets; opaque laws and regulations covering inward investment; and the unrealistic view that economic reconstruction would be driven by the private sector without an input from the public sector. In addition, in many countries the collapse of industrial production, falling real wages and rising poverty retard the development of markets.

To get a more accurate picture of what is happening to FDI, it is often better to look at the stocks, rather than the flows (this strips out the short-term influences). Here, the following emerges. Approximately only 17 per cent of the stock of outward investment by the ten largest OECD economies goes to the non-OECD countries, Of this, there is a high degree of concentration in a few countries, with the trend towards ever-greater concentration. Incomplete OECD figures for 1993 suggest that China received 40 per cent of the non-OECD country total, and that Singapore and Argentina together received a further 20 per cent. With the inclusion of Brazil and Malaysia, the top five countries accounted for 68 per cent of the non-OECD share of OECD FDI, up from 51 per cent in 1991. The main recipients from the CEECs have been Poland, Hungary, the Czech Republic, the Republic of Slovakia, and Romania. But, relative to the top five countries listed above, the volume and value of this FDI is very small.

The unprecedented increase in global investment flows and the changing political landscape have brought with them the perception that the existing multilateral disciplines governing investment are insufficient to smooth out problems as they arise. The OECD has identified the following factors which lend weight to this hypothesis:

- The more than 30 bilateral/sectoral/regional agreements, while bringing benefits to the multilateral system are insufficient in the present circumstances;

- The existing system may be unable to cope with pressures generated by new players;

- The present system favours unilateral solutions to disputes, and with this, the threat of reciprocity, or conditional national treatment where demands are made for market-opening by strong economies to weaker economies;

- Domestic liberalisation measures have moved ahead of multilateral liberalisation, necessitating a catch-up; and

- Merely combining the existing agreements would bring no guarantee of additional liberalisation, and would not contain adequate provisions on investment protection and dispute settlement.

To this list, TUAC would add the underdevelopment of the labour element of international investment. At the multilateral level, governments have failed to implement fully the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration on Multinational Enterprises and Social Policy. This criticism could also be levelled at the existing bilateral arrangements, such as the United States scheme to guarantee foreign investment against risk (part of the Multilateral Investment Guarantee Agency), which contains a labour rights clause, or the APEC voluntary code on FDI, which makes no reference to labour rights.

The Existing OECD Investment Instruments

The original OECD Codes of Liberalisation of Capital Movements and Current Invisible Operations date back to 1961, the same year as the OECD was founded in its modern form. Original provisions covered such areas as: inward direct investment; the creation of new enterprises and the expansion of existing ones; and mergers, take-overs and participation in domestic enterprises by non-residents. However, it was only in 1984 that agreement was reached to make these provisions fully effective by requiring Members to apply the National Treatment principle which was agreed as part of the 1976 OECD Declaration on International Investment and Multinational Enterprises. From a trade union perspective, the 1961 provisions were only partial, in that a labour element covering the behaviour of MNEs was omitted.

The 1976 OECD Declaration, though having a different legal standing to the 1961 Codes, nevertheless extended the scope of the Codes, and, importantly for the trade union movement, included an element covering industrial relations in MNEs. Four distinct elements were woven together to form a package of instruments designed to address key issues for international co-operation. The Declaration is a political undertaking supported by legally binding decisions of the OECD Council. The four elements are:

- A National Treatment instrument, whereby, OECD Members must treat foreign-owned enterprises operating in their territories no less favourably than domestic firms;

- The Guidelines for Multinational Enterprises which include a section on industrial relations in MNEs. Though not legally enforceable the Guidelines are expressions of policies to which governments have committed themselves and which they have a moral obligation to implement.

- An instrument on Investment Incentives and Disincentives that encourages transparency in the way that governments provide financial and non-financial sweeteners to companies, and which provides for consultation and review; and

- An instrument on conflicting requirements that seeks to ensure that governments ensure a "level playing field" for MNEs.

In terms of spatial coverage, the 1961 OECD Codes and 1976 Declaration apply formally only to the OECD area. However, the Codes recommend that liberalisation be extended to all members of the International Monetary Fund (IMF), and in 1991, the European Union acceded to the Declaration. In the CEECs, Hungary has agreed to implement the Guidelines, but as yet to initiate a National Contact Point, and, of course, all four of the Visegrad countries will sign up to the Guidelines upon their accession to the OECD.

The OECD Guidelines for Multinational Enterprises

Despite trade union criticisms over the way in which governments have implemented the Guidelines, they still represent the "state of the art" in terms of workers' rights in MNEs. Included in the provisions relating to Employment and Industrial Relations are the following: the right to recognition and collective bargaining for unions; the right for unions to be provided with facilities to reach collective agreements; the provision of information that allows unions to negotiate meaningfully and that gives a fair view of the enterprise; that reasonable notice of changes in operations, including lay-offs and dismissals be given to unions; that MNEs should not threaten to transfer production or workers during negotiations; that the local labour force be utilised, trained and upgraded; that employment practices be non-discriminatory; and that trade unions be given access to the appropriate level of management during negotiations. Trade unions in the transition economies should also be aware that the Guidelines are available in Hungarian, Polish, Russian Czech and Slovak. TUAC is recommending that trade union bargainers in the Special Negotiating Bodies charged with negotiating the terms of reference for future European Works Councils incorporate the Guidelines on Industrial Relations into the Constitutional document.

The OECD has reviewed the operation of the Guidelines for Multinational Enterprises several times since 1976, leading to an amendment in 1991 obliging all OECD governments to set up a National Contact Point (NCP). The role of the NCP is to promote the Guidelines, handle enquiries and gather information on experiences with them, and, most importantly, assist in problem-solving when disputes arise between MNEs and trade unions.

In practice, the TUAC experience is that the level of political support given by governments to the implementation of the Guidelines and resources given to the NCPs varies enormously across the OECD. This concern also applies at the level of the OECD, where the Committee on International Investment and Multinational Enterprises (CIME) is charged with resolving problems that cannot be dealt with at the national level. Typically, when TUAC has presented cases to the CIME, the response has been one of delay and prevarication. This reflects the shift in ideology in the 1980s by many governments away from a more "hands on" approach to regulating the activities of MNEs, especially in the area of industrial relations, towards a policy of attracting FDI, irrespective of some of the excesses in terms of management practices. For example, in 1993, TUAC brought a case forward to the CIME regarding the Hoover company, on which we are still awaiting a reply.

The MAI: Further Investment Liberalisation and Trade Union Concerns

The precise areas in which the MAI will further liberalise investment regimes and the associated conditions applying to this will now become the subject of negotiations within the OECD. While the precise outcomes are as yet unknown, general concerns may still be stated. Trade unions should, therefore be aware of the following:

- Non-OECD economies will be allowed to accede to the MAI. The four Visegrad countries, depending on the date of membership, will be expected to adhere to its principles, while other countries within the region would be given the opportunity to join. Membership, however could be a double-edged sword, as in addition to companies in theses countries being given greater access to OECD countries, the obverse will apply, in that companies located in the OECD will have greater access to non-OECD countries. Governments, could therefore find it difficult to protect many domestic industries from foreign take-over. Problems could arise here in the transition countries, over, for example, privatisation, where ownership of key industries could pass into foreign hands, or where asset-stripping could occur.

- Privatisation of key utilities and public services could be a wider problem. Furthermore, if, as is envisaged, the MAI extends liberalisation into the area of public procurement, MNEs would have access to other strategic industries. It could then become more difficult to use industrial and regional policies to effect structural change in a socially just way.

- The risk of delocalisation could increase, as, in an investment "free-for-all", MNEs would be able to shift production at will. Employment levels and labour standards would be more easily undermined by bad employers. This could also have ramifications for pension funds, etc. For example, in Germany, pension fund managers are limited in the amount of their assets that can be invested abroad. Should the MAI seek to liberalise this condition, then investors would be free to invest abroad with implications for domestic investment, and control over the destination of pension funds. A situation could arise whereby workers' money is invested in regimes with a poor record in human rights (including the suppression of workers' rights), or in companies trading in arms to the Third World. The volatility in the world financial markets could also be increased with further liberalisation.

- Related to the increased threat of delocalisation by companies would be the increased pressure upon governments to deny workers' rights and undermine labour standards to retain or attract FDI. Governments, in the hope of securing employment through FDI could seek to gain a comparative advantage through cutting labour standards — thus setting off a race to the bottom.

The TUAC Response

TUAC has submitted three policy statements to the OECD on the MAI and supplemented these orally at various consultations with the CIME. TUAC supports the negotiation in the OECD of a new multilateral investment treaty, but this support is conditional on the satisfactory inclusion of the Guidelines for Multinational Enterprises in the MAI. This would make the MAI a truly comprehensive instrument which could help create the right framework for FDI, including the promotion of employment and stability of employment as well as decent industrial relations. Without the Guidelines, governments could face a backlash against FDI and MNEs in general, and more specifically against the MAI. The growing threat of protectionism will stem from the exclusion of workers' rights and not from their inclusion in a new investment treaty. Moreover, the inclusion of the Guidelines in the MAI would act as a catalyst to improve labour standards in domestic enterprises as the beneficial spill-over affects from "best practice" MNEs are diffused throughout the economy.

As to how the Guidelines could be incorporated into the MAI without changing their voluntary nature, TUAC has proposed the following:

- An extensive reference to the Guidelines in the preamble to the MAI, including the main points from the section on Employment and Industrial Relations;

- The incorporation of the Second Revised Decision of the OECD Council into the main body of the text of the MAI. This would ensure the continuation of the obligation on OECD governments to set up National Contact Points, while ensuring the existence of a "level playing field" for those non-OECD countries wishing to accede to the new treaty; and

- The annexation of the full Guidelines to the MAI.

Next Steps

The OECD is currently deciding on the format for negotiations on the MAI, and TUAC will seek to ensure that the trade union viewpoint on the Guidelines and other matters of concern will be heard at the multilateral level. TUAC is also urging its affiliates to play a proactive role at the domestic level by seeking to have a voice and thereby guide the public debate around the future direction of FDI policy. Trade unions in those transition economies and others that have applied to join the OECD can also play a role in this. It is likely that some of these countries will have joined the OECD prior to the completion of negotiations on the MAI - and will therefore be fully involved in the negotiations - or that they will be consulted by the OECD as part of the programme to involve non-member governments.

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