

IN FOCUS
INDUSTRIAL RELATIONS
IN HUNGARY

Edited by
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INTRODUCTION

INDUSTRIAL RELATIONS IN HUNGARY – A CLOSE LOOK IN A WIDER PERSPECTIVE

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A yearbook series exploring labour market evolution in terms of demand and supply should not overlook forces and institutions which are not directly market-like. The legal environment, employment policy or industrial relations are decisive for the working of the labour market. The relationships between employees, employers and the state, the bipartite and tripartite negotiations and agreements of trade unions, employers' organisations and the government largely influence wages, employment and conditions of work – differently, by countries and times, as historical and present-day evidence illustrates.

In the classical approach, the purpose of a collective agreement is to set wages, working time, terms and conditions of employment at the workplace through the bargaining between the employer and the trade union. This interpretation is still used in Anglo-Saxon countries just as it was in pre-world war II Hungary, the difference being that craft organisation at that time helped regulation through collective agreements at the level of the various crafts and trades. Institutional developments in Western Europe over the decades following World War II made it possible for employee and employer organisations to coordinate collective bargaining at higher levels than individual companies or craft and trade segments. Furthermore, negotiations do not concentrate exclusively on wages and productivity – still decisive for profits, unemployment or inflation.

In a good many countries, negotiations between social partners cover vocational training and education policy issues as well. Thus the agreements influence not only individual employer and employee decisions (such as what

qualifications or skills the employee to be hired by the company should have, or how much a family spends on the education of their children) but also the general level of labour skills and thereby the competitiveness of the economy as a whole. The system of industrial relations is one of the non-market coordination mechanisms – an “institutional infrastructure” – that differentiates economic and political regimes of developed market economies (cf. *Hall–Soskice* 2001 identifying “liberal” and “coordinated” varieties of capitalism.)

Just to mention some of the best known institutions developed in Western Europe: confining the labour market competition in the various sectors within the framework of contractual rules and government extension of contracts to workplaces originally not covered; “neo-corporatist” tendencies involving social partners into government, as well as institutionalised participation of European trade unions and employers’ associations in the various procedures and bodies of the European Union. Over a long period of evolution, various patterns of industrial relations have been formed in the countries of the developed world. The question is what kind of industrial relations’ system has evolved over the fifteen years of economic and social transformation in emerging market economies, such as Hungary, sweeping away a state socialist system, not tolerating autonomous interest representation.

Scarce experience, short perspectives and related insufficiencies of research make it difficult to answer this question. Moreover, just at the time of trying to overcome the underdevelopment of industrial relations in Hungary, we meet signs of a questioning of the viability of the discipline in developed market economies. To put it more conservatively, researchers are about to radically redefine the goal and content of industrial relations (*Kaufman* 2004; *Taylor* 2005). The return from a narrow study of collective bargaining and of trade unions to the original interdisciplinary approach encompassing the whole world of work may have a paradoxical affect on Hungarian research, which has tended to use different tools and a broader view: it may either encourage the retention of the multi-faceted approach and progress in the direction of industrial relations in the narrower sense or weaken the efforts to catch up in the areas mentioned.

What underlies these seemingly academic presumptions are the changes in the world of work. The goal of classical industrial relations approach was to understand the relations of waged work – that had become overwhelming with mass production and Fordist-Taylorist work organisation and management – and to rationalise and improve them by using a wide range of tools (from economics to sociology and management sciences). In the course of its development, parallel with that of the industrial society, the interest on industrial relations exactly narrowed down at its heyday in the steady growth period of the 1950s and 60s, when trade unions had become an important social and economic institution and collective agreements were spreading.

With new technologies, the renewal of company management, and global competition, it is the multi-faceted interdisciplinary approach that may better help understand the post-industrial world of differentiating employment forms, increasingly individualised regulation and direct employer-employee relationships (tending to leave aside declining trade unions).

The *In Focus* section of this year's *Hungarian Labour Market volume* can hardly give a comprehensive, monographic answer to these questions. Its humble goal is to give an overview of industrial relations' developments in Hungary over the past decade. This particular span of time was chosen because on the one hand several reviews of the period up to the mid-1990s have been published (*Ladó-Tóth* 1996; *Borbély* 1999; *Koltay* 2000) and on the other hand the middle of the 1990s can be regarded as a turning point both in the economic processes and in the system of industrial relations.

The economic growth that began after the "transformational recession" and the subsequent macroeconomic stabilisation clearly opened up new prospects for the consultation and negotiations of social partners. By that time, plural trade unions and employer organisations – the successors of the old-regime organisations and new ones – were more or less over their bitter legitimacy in-fights, and the new system of relations, at just about the same time, had also solidified. The failure to reach a *social pact* (Social and Economic Agreement of 1995) made the constraints of macro-level interest reconciliation obvious. The role of collective labour law institutions in companies had also crystallised at the micro level too. Selecting a specific period to be explored, however, implies that the historical review will be limited to what seems absolutely necessary for an understanding of the interconnections as well as for the explanation of the specifics of Hungarian labour relations and for drawing the conclusions. While, because of space constraints, the international aspects had to be left out, related research findings and literature are referred to by the authors as necessary. Furthermore – without relevant recent research findings – some fields to be included in a classical monograph are lacking in the volume. Thus the reader will surely miss the review of the development of collective labour law and of the activities of the National Interest Reconciliation Council.

Similarly to previous volumes of the yearbook, *In Focus* primarily relies on recent items of research. Its purpose is not to fill research gaps but to arrange systematically and link analyses chosen by the editors in order to give the most comprehensive possible overview of industrial relations as they have developed in the swirls of the transition to a market economy. We do hope that from different angles and with a variety of tools the chapters in the volume lead to converging conclusions, occasionally pointing out the specific opinion of the respective authors if different. It is our intention to provide the reader

with a picture more clear-cut and more detailed than before of the relations between employees, employers and the government.

Essentially, the volume upholds the established views and evaluations (based among others on earlier writings by the authors of this volume's *In Focus*) on decentralised wage determination; the limited scope and regulatory power of collective agreements; the survival of informal bargaining at the workplace; the dominance of unilateral employers' decisions and of direct market factors; the decline in organised labour; the fragmented nature of employee and employer organisations; the increasing individualisation in industrial relations.

The same holds true with regard to the weaknesses of the intermediate, i.e. the sectoral level of industrial relations, mostly, in the same way, viewed negatively by foreign analysts. On the one hand, there are the well-known organisational causes: fields of organisation often do not overlap on the two sides; the sectoral organisations are not authorised to negotiate and/or do not have the powers to enforce sectoral agreements at the company level. Thus, the majority of domestic employers do not wish to waive their autonomy to conclude agreements or set wages, and do not want to join higher level collective agreements, which restrict competition and do not seem necessary in order to fend off the danger of eventual state intervention (typically the extension of the agreement); neither are employers attracted by the possibility to reduce in this way the transaction costs of their human resources policy. On the other hand, however, intermediate level institutions and agreements are often regarded, especially on the employee side, as an efficient antidote of sectoral or regional wage differentiation. Not elaborating here on the expectations about sectoral institution building (discussed *In Focus*) or on the experience from abroad, it is only to be noted that intermediate level coordination of wage bargaining can serve not only the levelling out of wages with its macro-economically unfavourable effects (boosting wages and discouraging employment cf. *Calmfors–Driffill*, 1988) but also the curbing of wages (moderating wage demands and wage hikes) with its macro-economically favourable effects (fostering employment and price stability, see the Austrian debate on competition-exposed wage leading sectors and wage following sectors *Pollan* 2004 and *Traxler* 2005).

The *In Focus* chapters are arranged in four parts. The first, dealing with the Hungarian social partners starts with analyses of employers' associations and trade unions: how they are organised, what are their interest advocacy policies and their financial and human resources. The chapter on employers' organisations gives an overview on memberships, internal structure and typical interest representation strategies as well as financial resources for operations. Further, it covers the duality of representing business and employers' interests, authorisation of employers' organisations to negotiate with partners, the

role of services they provide and finally their relationship with the economic chambers. The chapter on trade unions discusses in detail the most important features of the Hungarian union movement, such as membership size, the internal structure and conflicts of confederations and sectoral federations, financial resources, typical representation strategies of unions and how they retain and organise membership.

Following the introduction of the actors, the three chapters of the second part focus on the intermediate level of industrial relations. The first chapter puts under scrutiny regional industrial relations, namely County Labour Councils. The Councils are important in two ways: on the one hand they directly influence the working of the labour market through their role in distributing resources allocated to employment policy funding; on the other hand they act as a vehicle for the participation of the social partners in decisions on the distribution of various EU funding and on the strategies of vocational training.

The second chapter describes the sectoral social dialogue committees, the setting up of which has undoubtedly been the most important institution building development over the past two or three years. These brand new sectoral fora, have hardly, as yet, started to function but trade unions already regard them as a potential arena for negotiating sectoral collective agreements. At the same time, both sides intend to use these fora for consultation and lobby activities to influence the economic regulation of the sector and potentially, if only indirectly, sectoral employment, too. The next chapter addresses industrial relations in public services (civil servants and public employees). It outlines institutional developments at the sectoral and national level in this area as well as the achievements of collective negotiations. The primary focus of this chapter is the analyses of wage increases (with a special emphasis on the 2002 wage hike for public employees), and strikes and demonstrations in public services.

The next part is devoted to collective bargaining, traditionally the most important issue of industrial relations. The first chapter examines the penetration and the various levels of collective agreements in Hungary as well as the changing contents of the agreements – as far as is possible using the available statistics.¹ Then comes a case study of bargaining activities in a special sector: public road transportation. The peculiarities of this sector include not only frequent strikes, service providers in a monopoly position, but also maintaining state ownership, with all its controversies. Focusing on the trade unions' role at company or workplace level, the third chapter on collective bargaining examines to what extent collective agreements, individual deals and – if employees in a bargaining position are lacking – unilateral employer's decisions on individual wages, determine wages. The paper explains in a historical perspective how and why company level bargaining strategy of Hungarian

¹ It is to be noted that from this year on the statistical appendix of the yearbook will include a series of tables showing quantitative indices of the institutions of industrial relations, first of all on collective agreements.

trade unions coincides with the modern human resources policy of employers regarding wage flexibility.

The two chapters in the last part of *In Focus* deal with the latest developments of workplace interest representation. Based on the findings of a survey, the author of the first chapter presents the penetration, composition and operation of the works councils introduced in 1992, then points out the importance of European works councils at multi-national companies in Hungary. EWCs are a new phenomenon in Hungary as it became mandatory only when Hungary joined the EU to invite the representatives of Hungarian employees to the bodies working at the European company headquarters or to set up EWCs at the few multinational companies headquartered in Hungary. The chapter on the “individualisation” of industrial relations draws the readers’ attention to the problems of workplaces without a trade union or with a “soft” one. Partly from a theoretical point of view and partly based on experience, the author investigates in what way the informal wage and performance bargaining between workers and management has changed since the state socialist period, and how this change relates to modern human resources management of companies in their everyday shop-floor practices.

Some important actors shaping Hungarian industrial relations are not covered by separate chapters. One of the two actors remaining – here – more or less hidden, is the Hungarian state, i.e. the government in power, and the other is the European Union, or more accurately its bureaucracy: the European Commission.² Besides its direct role in negotiating with trade unions as an employer (two chapters cover this issue) and participating in tripartite interest reconciliation at the macro level, the government plays an important role in shaping industrial relations and their institutions. Evaluating the activity of the National Interest Reconciliation Council (and of its predecessors) several authors have concluded that it primarily depends on what role the government wants it to play.

Furthermore, the ambition of the state to build institutions and to regulate spontaneously created organisations is touched upon in several of the writings in the section *In Focus*. The chapter on the working of the sectoral dialogue committees highlights the contradictions involved in the government’s supportive intervention – considered necessary by all participants – that may jeopardise the autonomy of social dialogue, the safeguarding of which is one of the most delicate issues of institution building.

Similarly, the chapter on regional interest reconciliation describes how the legal regulations have degraded the county labour councils, set up more or less spontaneously after the regime change, almost to branches of the National Interest Reconciliation Council by allowing participation only to the local representatives or member bodies of organisations that are present in the National Interest Reconciliation Council. State subsidies, which can be

² The research of industrial relations in Hungary seems to focus on trade unions and employers’ organisations only, producing exhaustive and highly critical studies of the representative and democratic nature of their organisations as well as of their stated goals. Yet, one wonders why the research financed mostly from Hungarian or EU funding fails to investigate the role of the par excellence political actors – the parties – in more detail. This kind of research would require a truly multi-disciplinary approach in which the analysis from the point of view of the political sciences would be of paramount importance. The editors sadly admit that, with research on the labour policy of the various subsequent governments and the activities of the government and opposition parties in the area of labour affairs still missing, this trend continues in this volume too. While some of the sub-areas (changes in labour laws, goals and assumed roles of privatisation and of employment and social policies) have been investigated, to our knowledge no researcher has addressed the role of the state and of broader politics in shaping industrial relations over the past fifteen years.

regarded as an intervention in industrial relations can undermine the autonomy and credibility of organisations. It becomes a real danger with the steadily growing share of public grants in the budgets of interest representation organisations, as pointed out in the chapters on trade unions and employers' organisations.

The state, of course, also intervenes in other areas: it extends collective agreements, runs the labour inspectorate which investigates adherence to collective labour law rules and pursues a labour policy – once again a priority area – which rewards “well structured industrial relations” through making “good behaviour” of a company a criterion in active labour market policy grants and public procurement tenders. While it is not our intention to take a position in the debate of these issues, we want to emphasize that now in Hungary, just as in other post-socialist countries and in developed market economies at certain times of their history, the state and public policy have an important responsibility in the shaping of the system of institutions and of the actors of industrial relations (*Adams–Markey 1997; Kaufman 1994; Castel 1998; Pollert 1999; Advagic 2005*).

The European Union's role in shaping industrial relations is addressed explicitly only by the chapter on the sectoral level. Here, the main point is that the goals fixed by the EU are not limited to the PHARE program setting up the sectoral dialogue committees; in which as a matter of fact, through the financing scheme, the EU Commission was directly involved in identifying the goals and when the program was over, in the evaluation of the yields of the EU funding. Furthermore, this chapter emphasises the broader implication that member states should have a well-developed and structured social dialogue and industrial relations system in order to be able to implement community goals and directives in the practice.

For instance, the objectives of the *European Employment Strategy* such as the equality of opportunities between men and women, the introduction of flexible working time schemes and of new forms of work organisation, or the harmonisation of workplace with family needs can be implemented in practice only via the collective negotiations between employers and trade unions. Within the fairly broad framework of the EU directives, only direct negotiations that take into consideration the specialities of the sector and the workplace can harmonise political goals in practice. “*Flexicurity*” is an example of this kind of harmonisation: this principle, originally developed in the Netherlands and in Denmark and later translated into an EU policy, seeks to find specific solutions that help create the delicate balance between the employer's demand of flexibility and the employee's need for security.

On a more general level, facing the challenges of globalisation, the main goals have become competitiveness and social security (the latter considered as one of the achievements of social development after World War II). At the

rhetorical level, both are the goals of the European Union and any important political document (for instance the Lisbon Strategy) mentions them together. The European Union does not simply delegate the task of solving conflicts of interests, or the clash between capital and labour – to use a somewhat archaic terminology – but explicitly expects social partners to make constructive compromises.

Several EU politicians, trade union leaders and labour law experts, however, attribute a much greater importance to the industrial relations of new Eastern European member states than what is involved in employment policy goals. In their view, only a workable social dialogue and the “European style” industrial relations can provide the guarantee for the appropriate working of labour directives, transposed by Hungary too in the course of law harmonisation. This requirement is much more evident in the case of directives (such as the directives on the European Works Councils and the participatory institutions in European Companies [Societas Europea – SE]) which set only framework regulations and procedures, and left the development of the specific forms and ways of operation of representative institutions to the social partners. In the case of the two directives cited, this institution is the agreement between the so called *special negotiation body* and the company’s central management.

It is less obvious, however, that the system of industrial relations and social partners can guarantee the appropriate enforcement of directives specifying itemised regulation and minimal standards as well as the legal provisions transposing them to the national legal system. To put it very simplistically, compliance with the provision of the law should not only be safeguarded by the labour inspectorate and the state institutions of labour courts: it is eventually the employers’ organisations and trade unions which can ensure compliance with the law and with the agreements in the workplace/labour market practice – by way of supervising each other and clarifying rights and obligations in the course of negotiations (Ladó–Vaughan-Whitehead 2003; Vaughan-Whitehead 2003; Weiss 2004). While this is not the official EU approach, it is certainly in the interest of the “old” member states and of Western European social partners that the labour regulations specified in the EU directives be enforced in the labour markets and workplaces of the “new” member states after the enlargement. As trade unions and experts tend to sharply put it: the achievements of the “European social model” are undermined by the “American style” – i.e. more deregulated than the Western European standards – labour rules in the new member states, and more importantly by the frequent open breach of labour regulations or “softened” application thereof through informal procedures in practice (Meard 2002; Vaughan-Whitehead 2003).

It is to be recognised that the EU directives perform generally the same role as have the labour treaties and standards emerging in regional cooperations

between countries or in free-trade zones: all of them try to restrict the competitive advantage of the less developed, low-wage-costs member states (*Gitterman* 2003). Yet, the multinational companies that have come to Hungary precisely to exploit this advantage over the last 15 years are perhaps the most important factor shaping employment in Hungary. This is the point where the EU requirements for industrial relations directly link to the trans-border relocation of jobs, and thereby to the changes on the Hungarian labour market.

1. SOCIAL PARTNERS IN HUNGARY

1.1 The Employers' Organisations in the World of Work

ANDRÁS TÓTH

In this chapter the author first reviews the development of employers' pluralistic interest representation and the structure, internal organisation and membership of employers' organisations. Following this the functions and services of employers' organisations will be discussed. Finally, the most important research findings will be summarised in order to understand the nature of employers' organisations in the broader context of post-socialist industrial relations.

The history of employers' pluralist interest representation

Under socialism state owned enterprises, cooperatives and private entrepreneurs were forced to join one of the five national organisations created by the regime: the *Hungarian Chamber of Economy* (*Magyar Gazdasági Kamara*, MGK), the *Hungarian Industrial Association* (*Ipari Szövetkezetek Országos Tanácsa*, OKISZ),³ the *National Cooperative Council* (*Termelőszövetkezetek Országos Tanácsa*, TOT), the *National Association of Cooperatives* (*Szövetkezetek Országos Szövetsége*, SZÖVOSZ), the *National Association of Craftsmen* (*Kisiparosok Országos Szövetsége*, KIOSZ), the *National Association of Retailing and Catering Entrepreneurs* (*Kereskedők és Vendéglátók Országos Érdekképviselői Szövetsége*, KISOSZ). The task of these organisations was to fulfil some governmental and supervisory functions and to represent the interests of the economic units in their respective sectors (Tölgyessy 1988). With the regime change however, these former state-controlled organisations reformed themselves into voluntary interest representation associations. All five organisations were successful in maintaining organisational continuity and the bulk of their membership. The reformed organisations adopted new by-rules based on voluntary membership and declared that their main goal would be representing the interests of their members. In most cases, the re-making of the organisation was accompanied by a change in its name. SZÖVOSZ became the *National Association of General Consumer Cooperatives* (*Általános Fogyasztási Szövetkezetek Országos Szövetsége*, ÁFEOSZ), KIOSZ became the *National Association of*

³ The organisation was set up in 1948 under the name National Crafts Association (*Országos Kisipari Szövetkezet*, Okisz).

Craftsmen's Corporations (Ipartestületek Országos Szövetsége, IPOSZ) while retaining the old acronym, and TOT became the *National Federation of Agricultural Cooperators and Producers (Mezőgazdasági Szövetkezők és Termelők Országos Szövetsége, MOSZ)*. While OKISZ retained its acronym, the official full name of the organisation was changed to the *Hungarian Industrial Association (Magyar Iparszövetség)*. KISOSZMGK took the name the *Hungarian Employer's Association Magyar Munkaadói Szövetség (MMSZ)* in 1994. Only KISOSZ kept its full name.

Parallel with the reform of former monopolistic business organisations in the transition period, new employers' associations were also established in order to represent the enterprises of the emerging private sector. The first of these organisations was the *National Association of Entrepreneurs (Vállalkozók Országos Szövetsége, VOSZ)*, which was set up in 1988 and in 1998 became the *National Association of Entrepreneurs and Employers (Vállalkozók és Munkáltatók Országos Szövetsége)* the acronym VOSZ remaining unchanged. In the summer of 1990, a group of medium and large firms of VOSZ set up a new organisation: the *Confederation of Industrialists Gyáriparosok Országos Szövetsége (GYOSZ)*. GYOSZ became the *Confederation of Hungarian Employers and Industrialists (Magyar Gyáriparosok Országos Szövetsége, MGYOSZ)* in 1991. In the agrarian-sector the Hungarian Chamber for Agriculture was set up in 1990 to represent the interests of the emerging small private farmers and landowners. This organisation later adopted the name of the *Union of Agrarian Employers (Agrár Munkaadói Szövetségnek, AMSZ)* when the statutory economic chambers were established in 1994, in order to distinguish itself from the latter organisations.

The reconfiguration of employers' interest representation coincided with the creation of the standing tripartite body for social dialogue. The Interest Reconciliation Council (*Érdekegyeztető Tanács, ÉT*), eventually established in the early autumn of 1990, was initiated by the first democratic government by way of inviting all the above listed nine employers' organisations. This invitation practically ensured a national interest representation status for these organisations. After the wave of setting up/reforming organisations in 1989 and 1990 was over, only one further significant employer organisation was set up: the *National Association of Strategic and Public Utility Companies (Stratégiai és Köszolgáltató Társaságok Országos Szövetsége, STRATOSZ)* in 1994. The creation of STRATOSZ, however, was perceived to be controversial for many. Some sources say that in 1994 a ministerial circular "instructed" companies to join STRATOSZ. Owing to these curious circumstances, employers' organisations in ÉT did not believe that STRATOSZ was independent and refused to allow it to join the Council. STRATOSZ never accepted the criticism, and confirmed that major state owned public utility companies set up the organisation as these companies had no suitable representation

whatsoever in the framework of previously existing employers' organisations. (www.stratosz.hu/szervezet/szervezet_bemutatasa.html). Eventually, after the restructuring of the interest reconciliation body in 1999 under the next government, STRATOSZ was given membership on the employers' side in the National Labour Council (*Országos Munkaügyi Tanács*, OMT).

As ÉT membership was based on Government invitation in 1990, legitimacy of membership has ever since been an issue. In the lack of clear and democratic rules of participation, i.e. how organisations were supposed to win a seat and how much relative weight they had in decision making, ÉT arguably could never function properly. Because of differences of membership-size and representativeness both on the employers' and on the employees' side, reorganisation of the sides based on proper legitimate rules became inevitable. As put by the experts of MGYOSZ: because of the internal controversies on the employers' side, negotiating partners and society at large became doubtful of the representativeness of employers' organisations in ÉT. The issue of settling the legitimacy problem of the sides at ÉT was put on the agenda in 1996, urged also by the government. In 1998 MGYOSZ drafted a plan of restructuring the employers' side, proposing that the nine employers' organisations in ÉT should divide into three groups, organised by areas of interest. The first group was to comprise organisations representing micro, small and medium enterprises, the second medium and large companies other than agricultural and the third agricultural employers. The proposal was accepted by the employers' organisations in ÉT, and some steps were taken towards this better structured and more unified system of representing employers' interests. The most important step was the amalgamation of MGYOSZ and MMSZ into the *Confederation of Hungarian Employers and Industrialists* (*Munkaadók és Gyáriparosok Országos Szövetsége*, MGYOSZ). In addition, the four organisations representing the self-employed and small enterprises (IPOSZ, KISOSZ, OKISZ, ÁFEOSZ) established the umbrella organisation the *Interest Representation Organisation of Small and Medium Sized Enterprises* (*Kis- és Középvállalkozások Érdekképviselői Szervezetét*, KÉSZ), but did not amalgamate into one united organisation. KÉSZ is only a forum run by the four organisations, which have retained their organisational independence. MOSZ and AMSZ, representing agricultural enterprises planned to create a similar umbrella organisation but then never did so (*Beszámoló...* 1999). Negotiations concerning a merger were commenced by VOSZ and STRATOSZ but only got as far as a cooperation agreement in 2000. Reportedly, following 1999 when STRATOSZ was admitted into OMT, it lost interest in the amalgamation process. Experts say that the resistance of some of the employers' organisations as well as the new interest reconciliation policy introduced by the Orbán government when it came into power in 1998 led to the failure of the reorganisation process. Since 1999, the issue of the legitimacy of employ-

ers' organisations has not been raised by any of the sides. The nine national employers' organisations have consolidated their positions as members of the national tripartite body, and *inter alia* as national level organisations.

Despite the failure of the full-scale reorganisation of employers' representation, the problems of divided representation, hence, the low level of efficiency in representing business interests has been frequently raised. In most cases, critics of the current system are calling for the amalgamation of the major interest representation organisations. It would appear, especially in periods when government policy is hurting the interests of business, that the calls for more efficient lobbying are getting louder. MGYOSZ itself proposed to set up the Hungarian Confederation of Employers to create a unified interest representation (www.mgyosz.hu/progr/pr.php?fo=1&al=2) in 2002, following the apparent failure of employers' organisations to effectively resist the minimum wage policy of the Orbán-government. In 2004 and 2005 the idea of unification was raised again, when the rapidly swelling budget deficit due to the loose spending policy of the government seemed to undermine the economic health of the country. Several leading businessmen called for a closer cooperation among employers' organisations. They proposed that national level organisations should cooperate more closely or even merge to improve their efficiency: a truly representative and powerful organisation could better promote a far-looking and multi-term economic policy, namely to be able to enforce a stricter budgetary policy. In particular the union of MGYOSZ and VOSZ, the two big organisations, was expected to create one lobby organisation that could more efficiently represent the interests of businesses (*Világgazdaság*, 10 August 2004). These negotiations, however, did not produce any results as far as closer cooperation was concerned. In June 2005 the newly elected president of VOSZ again raised the issue of harmonising the activities of employers' organisations in order to be able to force political parties to make consensuses over a long term economic development program (*Gazdaság – piac-profit.hu*, 16 June 2005).

Apart from the above mentioned nine national level social partners, there are two organisations active in important economic policy issues and assuming service provision and interest representation roles: the *American Chamber of Commerce in Hungary* (AMCHAM) and the *Hungarian Chamber of Commerce and Industry* (*Magyar Kereskedelmi és Iparkamara* (MKIK)). AMCHAM is primarily the organisation for American owned firms and for those with US based business partners or who are present in the US market in whatever form. AMCHAM is active in national economic policy issues, participates in public discussions concerning economic policy and is regularly consulted by the Hungarian government. MKIK was created in 1994, when Act XVI of 1994 re-institutionalised economic chambers, defining them as public bodies with compulsory membership. The law, however, did

not allow MKIK to represent the interests of its membership as an employers' organisation, but defined it as a public organisation providing services to enterprises. In November 2000, an amendment of the Law on Chambers cancelled compulsory membership. MKIK was reorganised as a voluntary organisation. Following 2000, public administration tasks were taken away from the chambers, but they have retained several public service responsibilities for undertakings. While after 2000 chambers lost 90 per cent of their membership, 43.000 companies have remained members. It is predominantly large firms that have maintained membership in MKIK (www.mkik.hu/index.php?id=64).

National employers' organisations admit, occasionally even publicly, that they regard the chambers to be their rivals. Compulsory membership in chambers between 1994 and 2000 resulted in a membership drop in the employers' organisations representing small enterprises, as small entrepreneurs and businesses were not able to pay fees for both chambers and voluntary organisations. Additionally, chambers were given competences that earlier were provided by employers' organisations (www.bonyhad.hu/20050701u02.html). For instance, in the area of education, one of the most important functions of IPOSZ, inherited from KIOSZ, was administering training for the master's qualification. In 1995, however, this competence was taken over by the newly set up chambers and is still undertaken by a company set up by the chambers. IPOSZ lost an important source of income, too. IPOSZ has ever since urged a separation of the master training in handicrafts from the master training package offered by the chambers. (See the introduction by IPOSZ president Gy. Szűcs at www.iposz.hu). Furthermore, the question of what role the chambers play in interest representation has not yet been solved.

According to section 14 of Act CXXI of 1999, economic chambers shall not fulfil occupational, employer and employee interest representation. At the same time, chambers openly claim to represent business interests. The program of MKIK states that one of the goals of the organisation is the interest representation and the protection of Hungarian entrepreneurs (<http://www.mkik.hu/index.php?id=64>).¹ At the time of the Orbán administration, between 1998 and 2002, the government frequently dealt with the chambers as employers' interest representation organisations, which provoked the objection of MGYOSZ and VOSZ (*Munkaügyi Kalendárium*, 2001). The president of MKIK makes it clear from time to time that the chambers should undertake interest representation even if the rest of the employers' organisations do not like it (Report with L. Parragh, *Kossuth Rádió*, 29 July 2005).

Despite sporadic calls for changes, the composition of the employers' side seems to be stable. It would appear that none of the organisations involved in the system is interested in changing it. As the partial failure of the reorganisation attempt in 1998–99 showed, any major change depends on whether the government would also support it, or would challenge the representativeness of some of the organisations or of the entire side out of some political consid-

eration. It seems, however, an unlikely move. One of the reasons is that the system seems to work seamlessly. The other is that the employers' organisations, in general, have not openly affiliated with any of the political blocks, thus none of the major political parties is politically interested in challenging the employers' interest representation organisations.

Membership and organisational structure

Membership. Voluntary organisation led to significant losses in membership in those organisations that had covered a whole sector in the state socialist era. In addition whole sectors split off from some of the restructured organisations. For instance, savings and housing cooperatives, represented by SZÖVOSZ, did not join ÁFEOSZ.

The introduction of compulsory chamber membership in 1994 caused further serious membership drops in employers' associations, especially in organisations of micro and small enterprises. Based on information provided by the employers' organisations, the size of the various organisations is as follows:⁴

- ÁFEOSZ directly covers 1255 cooperatives and 62 groups of students' cooperatives, involving altogether 2000 stores in the Coop chain. Furthermore, it covers about 5 thousand individual franchise stores and catering units. Member organisations have set up 17 independent county associations. Through various agreements, the organisation represents 2500 cooperatives employing about 130 thousand employees, including savings and housing cooperatives (Neumann 2002).

- AMSZ, no data available.

- In 1988, IPOSZ had 167 thousand self-employed members through more than two-hundred regional and crafts corporations. In December 2004 about 50 thousand businesses belonged to IPOSZ through member organisations. Despite the fact that the number of members shrank to one-third, the number of member organisations has hardly changed. IPOSZ still has 260 member organisations, of which 229 are general regional and local crafts corporations operating in major cities; 31 member organisations are sectoral ones with a national reach.

IPOSZ

KISOSZ represents and coordinates the activities of 22 member organisations (19 county organisations, 2 organisations in Budapest and 1 sectoral federation). Through 22 member-organisations currently 35 thousand undertakings are connected to KISOSZ, 85% of which are self-employed or small family partnership businesses. KISOSZ represents 270 thousand full time or part time self-employed persons in trade as well as businesses in trade and catering operating in various partnership forms. Its total coverage is claimed to be about one million persons, including both entrepreneurs and employees.

⁴ No data is available on the size of the Agricultural Employers' Association (*Agrár Munkaadói Szövetség*, AMSZ)

– MGYOSZ is reportedly the main employers' organisation. Its structure still mirrors the fact that it was created as an amalgamation of two very different organisations. MGK, one of its predecessors, covered state owned enterprises and had over two thousand members in the socialist times through sectoral federations (*Gyarmatiné* 1998). The other predecessor, GYOSZ, which was a newly founded organisation for major domestic private companies, had about 100 direct member companies. In 1999, when the two organisations amalgamated, the new MGYOSZ had 54 professional organisations, 18 regional federations and 72 businesses with direct membership. MGYOSZ altogether represented 6000 enterprises employing nearly 1.2 million (*Beszámoló...* 1999). Currently several thousand companies belong to the organisation directly or indirectly.

– OKISZ also underwent a major shrinkage of its membership. At one time it had 3400 member-cooperatives, but in 2005 had only 980 member organisations, belonging to 22 regional or sectoral federations. It also has 6 affiliated sectoral federations. Altogether it covers more than 354 thousand employees and business owners (www.okisz.hu).

– TOT, the predecessor of MOSZ represented all of the 1300 socialist agricultural cooperatives. MOSZ currently is composed of direct members, regional (county-based) and sectoral federations. The number of direct members of the current MOSZ is 600, and an additional 400–500 organisations belong to MOSZ through county federations, and 1400 undertakings are connected to MOSZ through six sectoral federations. Altogether, through sectoral and professional federations, about 2000 organisations belong to MOSZ indirectly. None the less, some businesses are members both directly and through regional or sectoral federations. Direct members employ nearly half of all, about 48 thousand, working in the sector and direct and indirect members produce largely half of the total agricultural production. MOSZ claims that it represents all of the 300 thousand members of cooperatives and successor firms and 100 thousand owners in member organisations. At the same time, however, its membership has been decreasing, with 50 to 60 cooperatives going bankrupt annually.

– At the time of its setting up in 1994, STRATOSZ had 100 member companies employing over 750 thousand. In 2002 its membership was made up of three federations and 36 companies (www.stratosz.hu). STRATOSZ members produce 38 percent of the GDP

– VOSZ has 7,934 direct individual or business partnership members, employing 26 percent of active earners and producing 31 percent of GDP. Adding the 28,862 member companies registered in member organisations, companies represented by VOSZ employ 43 percent of active earners and produce 64 percent of the GDP (www.vosz.hu; *Gazdaság – piac-profit.hu*, 16 June 2005).

The heterogeneity of the membership structure. The speciality of the Hungarian structure of employers' organisations is that six out of nine came to exist through the reform of monopolistic organisations of the state socialist regime. These organisations essentially retained the main organisational profile and organisational structure of their predecessors. Their special way of organising was the so called "federation of federations". ÁFEOSZ, OKISZ, MOSZ and KISOSZ inherited a regional (county-based) structure while IPOSZ had both sectoral and regional (county-based) structures. In MGK, member organisations established regional (county-based) and sectoral organisations as early as in the 1970s and '80s as a result of which MGK became a confederation of sectoral and regional organisations. This structure was retained by the Hungarian Employers' Association (MMSZ) and MGYOSZ.

In the newly established employers' organisations (VOSZ, GYOSZ, AMSZ), member companies joined the national organisations directly. Sectoral and regional organisations were created later, if at all.

MGYOSZ, which was created by the merger of two associations, has a mixed structure: it has both direct member companies – mostly large firms that used to belong to GYOSZ – and indirect members belonging to professional and regional federations, with a structure inherited from MMSZ.

Membership is voluntary in each of the organisations, and one of the statutes prohibits dual membership. In the context of low membership fee payment requirements, this peculiarity has led to a situation that bigger companies may have multiple membership in more than one national association. Furthermore, in national organisations with both direct membership and regional and sectoral member federations, companies are frequently members of a sectoral as well as of a county or regional federation, and sometimes have even direct member status. It is not only companies that may have multiple affiliation, but a number of sectoral federations are members of several national level employers' associations.⁵

Another feature of the statutes of employers' associations is that membership is regulated only for the national level confederation, but member federations are free to set their own criteria of membership, as well as the rules of operation.

The statutes of the majority of employers' organisations recognise several legal statuses of membership. In addition to regular membership, there is associated, supporting or registered membership, which involve full or partial exemption from the paying of dues.^{6,7} As a result, multiple membership and the various types of membership having different conditions of paying membership dues are the norm everywhere. This practice makes it largely impossible to add up the number of members of the various employers' organisations in order to know the coverage of the given organisation. This makes it also impossible to appropriately calculate the relative weights of employers' organisations.

5 For instance the National Federation of Hungarian Contractors (ÉVOSZ) is a member of MGYOSZ, IPOSZ, VOSZ and OKISZ. The Hungarian Federation of Furniture and Timber Industry is a member of MGYOSZ, VOSZ and IPOSZ. Eight of the Volán companies are members of STRATOSZ and – along with the rest of Voláns – belong to the Federation of Transportation Companies, itself a member of MGYOSZ. 3 of the 39 member organisations of VOSZ are crafts corporations and are members of IPOSZ, and some of its professional federations, such as ÉVOSZ, are members of MGYOSZ; STRATOSZ is a member too. The Hungarian Association of Packaging and Materials Handling and the Hungarian Light Industrial Association are members of both MGYOSZ and OKISZ.

6 In IPOSZ supporting members are required to pay a supporting membership due, set by the presidium along with the members' entitlements to services. Registered members pay a registration fee. Associated members do not pay membership dues at IPOSZ and STRATOSZ. In VOSZ, there are no rules on how much supporting members pay, who can themselves decide on the annual amount they pay to VOSZ. An associated member of VOSZ may request the same rights and obligations as regular or supporting members.

7 In the county Komárom-Esztergom organisation of MGYOSZ the annual due of supporting members is HUF 30 thousand, one third of the regular membership due. A special solution is STRATOSZ' priority membership: priority members pay higher dues than regular members but may delegate two thirds of the presidium.

The constituencies of employers' associations. Most of the organisations that had existed before the transition have retained their profiles as far as their constituency is concerned. The new organisations have retained their focus on the group of companies which they targeted at the outset, with the exception of VOSZ, which changed profiles in 1998 in order to broaden its representative area.

Members of *AMSZ* are self-employed entrepreneurs, business partnerships, education and training institutions, agricultural research and development facilities, universities, water management associations, regional organisations of agricultural producers, self-employed and farmers.

- *ÁFEOSZ* primarily represents small and medium sized enterprises in trade. Its members are general consumers' cooperatives and their businesses as well as retailers who are connected to this chain of commerce. Only *ÁFEOSZ* members can be part of the supply chain and purchase at preferential prices. Employers and enterprises belonging to *ÁFEOSZ* are active in the sectors of agriculture, game and forestry; manufacturing; construction; trade and repairing; hotels and restaurants; financial intermediation; real estate and renting; education; other services.

- *IPOSZ* is the interest representation organisation of micro, small and medium sized enterprises. Its members primarily work in construction, services, taxi and road transportation, wholesale and retail trade, hotels and restaurants.

- *KISOSZ* represents micro, small and medium sized enterprises in trade and hotels and restaurants.

- *OKISZ* represents industrial cooperatives as well as small and medium sized enterprises working in various business forms that were formed out of the coops. Member enterprises operate in the machine industry, chemicals, light industry, construction and services.

- *MGYOSZ* represents enterprises in all areas of the competitive sphere. A criterion of membership is that the business should have more than HUF 50 million of capital or an annual sales revenue of HUF 500 million. Some member organisations, such as *ÉVOSZ*, do not set a revenue threshold.

- *MOSZ* is the representative organisation of agricultural cooperatives. None the less, to broaden its constituency, it also claims to represent the interests of businesses, the self-employed and small scale producers in the sector.

- *STRATOSZ* is the organisation of public utility companies with a strategic importance. It is active in 12 industries of the national economy, the most important of them being telecommunications and informatics, post and road and railway transportation, energy and media.

- *VOSZ* had been the representation organisation of domestic privately owned small and medium sized enterprises as well as of business partnerships. In 1998 it changed its recruitment strategy to be an all-inclusive national lev-

el confederation to match MGYOSZ. It declared that it recruited all kinds of enterprises, regardless of size and ownership structure. By engaging in the organisation of vocational training and becoming a partner in the government program designed to facilitate SMEs to obtain preferential credit (the so called Széchenyi Credit Card program) it has managed to recruit a substantial number of the self-employed and SMEs. 88 percent of the VOSZ membership are enterprises in Hungarian majority ownership and only 2 percent are foreign owned (www.vosz.hu).

Financial situation, infrastructure and organisation. The major sources of revenues of employers' organisations are as follows: membership dues, inherited assets, market services and project grants.

Membership dues.

- No data is available on membership dues of *AMSZ*.
- The annual membership due in *ÁFEOSZ* ranges up to HUF 600 thousand, primarily depending on the size of the member's assets.
- Regular members (general and professional crafts corporations, regional federations) of *IPOSZ* pay HUF 18 thousand a year as a basic due.
- In the county organisations of *KISOSZ* enterprises pay HUF 300 to 1000 a month, depending on the number of employees. County organisations contribute to running the national centre. These transfers, however, cover only about 10 percent of the centre's budget.
- In *MGYOSZ* the annual due for direct members is HUF 300 thousand, and the due payable by association type member organisations is HUF 360 thousand to 960 thousand, depending on the number of employees, the membership due revenues of the association and the number of represented organisations. Regardless of the size of the contribution, each member association has one vote. One third of the revenue of *MGYOSZ* comes from the dues.
- Member organisations of *OKISZ* pay HUF 10 thousand annually. The revenue from membership dues covers 10 percent of the annually approximately HUF 100 million budget.
- About half of *MOSZ*' budget is financed from membership due revenues.
- The annual priority membership due in *STRATOSZ* is HUF 600 thousand to 4 million and the annual regular membership due is HUF 100 thousand to 400 thousand. In both cases the exact amount depends on the previous year's net sales revenues. Associated members are not required to pay.
- The minimal membership due in *VOSZ* is HUF 12 thousand, and HUF 20 to 40 thousand annually for companies with a net sales revenue of up to HUF 50 million. In extraordinary cases, the presidium may reduce or cancel the membership due. For large member companies, the amount of the due is a matter of agreement. Many organisations, however, fully or partially pay for membership by providing services, for instance professional federations

provide experts' services. Less than 30 percent of VOSZ' annual budget is financed from membership due revenues.

The amount of the membership fee is quite low at all employers' associations. Small and medium sized members of VOSZ and the federations in IPOSZ pay hardly more than an employee pays as a trade union due. Despite the rather low level of fees, several organisations have complained that companies do not always regularly pay. Several organisations, for instance MGYOSZ and VOSZ, accept experts' services, organising events and other services for the organisation as a form of payment of membership fee. No wonder, membership fee revenues usually cover only one third of the annual budget of the organisations. In order to survive, employers' associations need additional sources of revenue other than membership dues.

Inherited assets. The role of assets and property inherited from the socialist period is important for the successor organisations in securing their day-to-day functioning. ÁFEOSZ, IPOSZ and OKISZ inherited large real estate properties, which provide them with office space and in some cases with revenues from renting office space.⁸

The newly established organisations, however, do not have the advantage of inherited office space and property. Given the low level membership fee resources, these organisations can easily find themselves in a dire financial situation, which in turn has an unwanted impact on their functioning – namely they are financially dependent. This danger is well illustrated by the case of VOSZ: in the period before 1997 VOSZ was practically a political and business lobby organisation of one businessman, who paid all the costs of operation and used VOSZ as a vehicle for his personal political ambitions and lobby interests.

Business services. Most employers' organisations provide business and education services related to their interest representation activities. ÁFEOSZ, for instance, maintains a training firm (Cooperative Educational and Services Ltd, SZÖVOK) and a vocational training school. A public benefit company set up by IPOSZ organises training courses, and the Plc. owned by IPOSZ provides intermediation services on a market basis (organising suppliers, finding manufacturing capacities for foreign businesses etc.) KISOSZ organises training courses in several trading professions to help members earn the certificates that are required to obtain a business license. Organising events and other market services is a considerable source of revenue for MGYOSZ. County organisations of VOSZ have independent budgets and have to ensure their own revenue the main source of which are market services. Income from business services is an important source of revenue and of legitimacy for the employers' associations.

⁸ The majority of operation costs of IPOSZ are financed from its hotel businesses. Half of OKISZ' expenditures are financed from real estate development. MGYOSZ inherited two headquarters buildings, where the central office and most of the member organisations have the premises.

Grants and tendering for public support funds. The various grant programs, including governmental support for the organisations participating in tripartite interest reconciliation bodies, play an increasingly important role in the budgets of employers' organisations. Since the 2002 change of government, resources distributed through tenders available for employers' organisations in the National Interest Reconciliation Council "to support interest representation activities" have considerably grown.⁹ Furthermore, participation in international projects has increased, which involves substantial targeted supports for certain activities. Admittedly, in general as much as 10 to 50% of the revenue of national level employers' associations comes from various government supported schemes and funds.

Staff. The size and mix of revenues largely impact the size of the staff working in central headquarters and the division of work at these organisations. With membership due revenues, inherited assets, grants and market services, national organisations have been able to set up a small but stable staff.

Sectoral and regional organisations, however, are in a much more difficult situation as their main revenues are small membership dues and market services. In sectoral and regional employers' organisations, which collect only small dues, the activities of the organisations often depend on the leaders' personal or business resources. At the same time, some of these organisations represent only one person or a small group of entrepreneurs (*Hámmor* 2004). In the following section the main information on the staff of the various organisations will be summarised (There is no information available on *AMSZ*)

ÁFEOSZ in its centre has 23 staff and their main responsibilities are interest representation. The economic secretariat provides assistance in legal, taxation and other issues.

The IPOSZ centre has a staff of 25, of whom 6 or 8 are experts. Including local crafts corporations, IPOSZ altogether has 400 full time employees.

The KISOSZ centre employs 11, of whom 4 are experts. The staffing of county organisations ranges from 3 to 20. *KISOSZ* altogether runs 70 county and city offices.

MGYOSZ has a full time staff of 20 and 2 more work in the Liaison Office in Brussels. 15 of the staff in Hungary are experts and 5 are in administrative jobs. The more than one hundred professional organisations have 2 to 5 full time employees each.

The OKISZ centre once had a staff of 550, and currently employs 13 full time, 9 of whom are experts. Of the 22 county federations only 2 have a full time president.

The full time staff of *MOSZ* has dropped from 40 to 20, of whom 12 are experts. Its 20 regional and 4 sectoral federations have 160 full time employees.

STRATOSZ maintains a small central staff.

⁹ In the case of IPOSZ, the amount of money won in grant programs has grown by 70 per cent over recent years. Also, grants collected by MGYOSZ have grown considerably and currently finance half of the budget.

The VOSZ centre employs 9 of whom 5 are full time, including the two executive leaders. 50 work in the county or regional offices.

Roles and functions

Participation in national tripartite interest reconciliation. It is their place occupied at the macro level that determines which organisations, politicians, international institutions and public opinion regard them as social partners. Understandably, employers' organisations mention tripartite institutions first when referring to tasks or achievements.

Participation in national tripartite interest reconciliation is:

- an opportunity to lobby in economic, social and labour law legislation;
- and opportunity for organisations in the National Interest Reconciliation Council to directly negotiate with the government;
- a route to several bodies and fora set up on the tripartite model;
- participation in various bodies is an opportunity to lobby on concrete issues in the interest of companies belonging to the organisation;¹⁰
- an opportunity to build up contacts with the central state apparatuses;
- help member companies to develop their markets through international contacts;
- and last but not least, it is a route to several institutional privileges including central grants through competition programs, which are very important for the organisations.

Experience has shown that organisations on the employers' side have been almost always able to form and represent a common stance with respect to specific issues and agendas. In an interview, a representative of one of the employers' organisations said that the authority of the organisations within the employers' side is determined by their contribution to GDP, foreign trade turnover and employment. No doubt, this approach favours organisations of large export oriented companies. At the same time, the profile of membership is decisive too for the interest representation activities of the organisations: ÁFEOSZ for instance primarily represents trading company members while IPOSZ mostly represents micro and family handicrafts businesses.

Tripartite interest reconciliation as a whole works on the basis of consensus making including issues in which the government is not statutorily required to cooperate. At the same time, however, the government often failed to respect the agreement made between social partners or took measures unilaterally before negotiations between social partners had been terminated. The clash of interests between the government and the social partners became especially apparent when the Orbán government increased the minimum wage by an unprecedented percentage. Analysts agree that generally the current government is the main driving force in tripartite negotiations. As the authors of a publication put it, one of the most important characteristics of interest recon-

10 One illustration is the intervention made by the Association of Industrialists in a train tender. See the article in the Index. "Flirtgate: MGYOSZ delegates protect MGYOSZ member." The article explains that in a railway tender procedure the MGYOSZ representatives kept voting for the Stadler company, an MGYOSZ member, against Bombardier (<http://index.hu/gazdasag/magyar/mavkoz05072/>).

ciliation is that both its agenda and institutions change as a function of what the current political power wants them to be (*Érdekvédelmi...* 2004). Not surprisingly, in recently reiterated proposals for merger employers' organisations have urged for a more efficient joining of forces against the government and for a more foreseeable governmental policy.

The real objective of employers' interest representation at national interest representation fora is more than just to give their opinion. Organisations tend to use tripartite fora ever more forcefully to influence the government's economic policy. They also want to influence legislation as well as strengthen the influence of the sphere of economy as a whole on political decisions.¹¹ The employers' economic philosophy that has developed over the past years is advocated ever more vigorously in the debates of the National Interest Reconciliation Council and in the media. Employers' organisations, more or less unanimously, argue for an economic policy that helps export-oriented economic growth through appropriately set exchange rates and interest policy as well as for cutting taxes and income taxes and for making the labour law more flexible to strengthen competitiveness. They are unanimous that reducing the burden on enterprises should be the primary resource of cutting public expenditures and reforming state finances.

Accepting these proposals, however, depends on the good will and cooperation of the government and of political parties backing the government. Employers had to learn a lesson when, in the years between 2000 and 2003, national politics could easily disregard the protest of employers' organisations against the rise of the minimum wage and in general the rise of wages above GDP growth. One of the most important arguments for the amalgamation of organisations is that it would help them become more powerful against the government.

At the same time, the functioning of employers' organisations increasingly depends on central support which makes it easy for the government to manipulate employers' organisations. MGYOSZ objected that the government upset the balance of power on the employers' side by "dumping central support on persons and smaller organisations having a good relationship with the government while trying to marginalise MGYOSZ".¹²

Similarly to trade unions, the statutes of employers' organisations usually declare political neutrality. For them it is always the current government that is the most important partner. Of course, the various organisations have political connections, sympathies and ambitions, which can be discovered by looking at under which government their top officials become members of governmental advisory bodies, at which civil organisations' programs they participate or whom they let use their premises. It seems, however, that only VOSZ between 1990 and 1997 tried to play a direct political role apart from representing employers' interests. Undoubtedly, refraining from participat-

¹¹ See for instance the MGYOSZ programme at www.mgyosz.hu.

¹² The history of MGYOSZ, see www.mgyosz.hu.

ing in political in-fights paid off as the government did not try to radically restructure the employers' side of macro level interest reconciliation.

Sectoral level interest reconciliation. Creating sectoral level interest reconciliation fora, on the model of the national level, has been on the agenda since the change of the regime. First, ministerial level interest reconciliation fora were organised between 1992 and 1995, primarily in the public sphere. In the competitive sphere only three fora were set up: the Agricultural, Food and Timber Industrial Interest Reconciliation Council (Földművelésügyi, Élelmiszeripari, Fagazdasági Érdekegyeztető Tanács, FÉT), the Industrial and Commercial Interest Reconciliation Council (Ipari és Kereskedelmi Érdekegyeztető Tanács, IKÉT), and the Transportation, Communication and Waterworks Interest Reconciliation Forum (Közlekedési, Hírközlési, Vízügyi Érdekegyeztető Fórum (KHVÉF). These ministerial level tripartite fora were usually consultation bodies and were sometimes the arena for direct interest negotiations and wage bargaining, especially in the budget and public utility spheres. The system of political rotation, however, hit these institutions hard. Despite the problems caused by restructuring the ministries by every new government (see *Érdekvédelmi ... 2004*), the bodies in construction and agriculture function more or less regularly. Apart from employer and employee organisations participating at national interest reconciliation, sectoral, professional and employers' organisations participate at these fora, and the ministries regard them as important partners.

To improve the intermediate level of social dialogue in the business sector, a PHARE project helped to set up the so called sectoral dialogue committees. In the case of employers' organisations, the criteria or representativeness were first specified in connection with participating in the sectoral dialogue committees. The criteria are the number of their employees, net sales revenue, number of members, history of participation in interest reconciliation, belonging to a national employers' confederation in the National Interest Reconciliation Council and having international relations. A further criterion is the share of employees covered by collective agreements signed by the given organisation (see: *Érdekvédelmi ... 2004*).

When the sectoral dialogue committees were set up, each of the national employers' organisations tried to strengthen their existing sectoral organisations. VOSZ launched an especially large scale organising campaign to be able to ensure its participation in the most possible sectors. Employers' organisations that earlier had only regional federations or direct company members made considerable efforts to create their own sectoral (professional or sub-branch) federations.

Employers' organisations primarily see sectoral dialogue committees as consultation and information fora that may give them the opportunity to influence government level sectoral strategies. In contrast, trade unions hope

that sectoral dialogue committees can become bodies for sectoral collective bargaining.

Regional interest reconciliation. Regional development is a new dimension of interest representation for employers' organisations: in the debates on the directions and programs of economic development they have the opportunity to make their lobby points. According to the EU norms of regional planning, partners must be consulted at each of the stages of development. According to the National Development Plan, the target groups to be involved in the development of the operational program include regional employers' and employees' organisations as well as the national level representatives of social partners. In the implementation phase, regional institutions to be established will take over the implementation of the *regional operational programs* to be financed from the EU Structural Funds (Winkler 2003). In other words, this is where the tripartite principle is put in practice with the involvement of employers' and employee' interest representation and of regional local governments. Building the institutions in connection with regional development plans has encouraged employers' organisations to create a corresponding internal organisational structure. For instance, the county organisations of KISOSZ have set up interest reconciliation bodies in all of the seven statistical regions. In the National Development Plan Committee, set up within the framework of the National Interest Representation Council, IPOSZ actively represents the interests of micro, small and medium sized enterprises.

Services to members and business and education services. Market related services, business management, education and information services provided by the organisations are important for member companies. To be able to survive and retain membership in the long run, organisations must become service oriented and manage services in the way a large company is managed. As seen, revenues from membership dues are not enough to finance the solid running of any of the employers' organisations. Employers' organisations that have failed to develop their market services have been forced to consume their assets and operate at a low scale. VOSZ could rapidly grow after 1998 because it put an emphasis on services to meet the needs of its membership and on running regional (county and local) and professional sections (Gazdaság – piac-profit. hu 16 June 2005). Employers' organisations have developed a wide range of services. County and local offices of organisations of small enterprises assist members in labour law, taxation and social security issues. Typically, newly joining members are given a service package and are helped to start up their businesses (obtaining licenses or getting them faster through contacts), and assistance in cases of disputes or inspection by the Tax Authority. Furthermore, KISOSZ and IPOSZ provide book-keeping services to their members. ÁFEOSZ provides economic, legal, taxation and accounting consultancy serv-

ices tailored to member organisations' needs, helps trading businesses adapt to the local operating conditions, provides education and training courses as well as training in the school system. VOSZ provides a wide range of free and payable services too (national and local level information, training, match-making for businesses, international market research etc.) Recently services have been expanded to include the assistance for enterprises to link in international chains and cooperation with large companies (suppliers' program), introducing the entrepreneurs' credit card (Széchenyi card) and developing a broad electronic servicing network. Almost all employers' organisations help their members to enter markets through organising fairs, conferences and exhibitions.

Education and vocational training are important services at each of the organisations; due to frequent changes in the law, compiling and publishing manuals to promote lawful activities is an important service as well as a revenue resource.

Several employers' organisations have set up companies to pursue business activities. For instance, IPOSZ has set up a share holding company while VOSZ has organised part of its business activities in Kavosz Plc. owned jointly with MKIK. International contacts are a help in lobbying in Hungary, in knowing foreign models and finding the best solutions. Furthermore, bilateral relations help member companies obtain business information and in finding potential business partners. Participation in national tripartite bodies opens up the way to government level delegations in charge of market development.

Bipartite industrial relations. "Classical" industrial relations play a rather unimportant role in the activities of employers' organisations. Negotiations and collective bargaining with trade unions are only a marginal concern for employers' organisations.

In contrast to their counterparts in developed market economies, today's Hungarian employers' organisation have not been organised as a counterweight to trade unions. Five of the nine employers' organisations are the legacy of the socialist system, which at the time of the change of the regime had considerable assets, staffing and continuous revenues from membership dues. What these organisations wanted to do was partly to continue their market related services in a new form and partly to find their places in interest representation against the state. The first arena and source of legitimisation for this was the Interest Reconciliation Council, set up in the summer of 1990. New employers' organisations were not set up to challenge trade unions but to represent political interests as well as the business interests of particular groups of businesses.

At the time of the crisis in the early 1990s and the restructuring of the old socialist organisations and business organisations trade unions dramatically

weakened. Loss of membership was especially visible in the competitive sphere. While at the member companies of MOSZ, IPOSZ and VOSZ there are no, or hardly any, trade unions, typically unions are present only in professional associations or large companies that are members of several organisations. In the successor organisations of industrial cooperatives belonging to OKISZ there are no trade unions (www.okisz.hu). Furthermore, as evidenced by statistics on strikes and demonstrations, radical union demands at the workplace level are hardly ever a serious challenge for employers' organisations while sectoral and national trade union actions were targeted at the government rather than the employers' organisations.

The arena of dispute and conflicts between the employers' organisations and trade unions is the national interest reconciliation forum, but in most cases, such as determining the minimum wage, making the national wage recommendations or amending the labour law, the government plays the decisive role. Quite frequently, social partners in the Interest Reconciliation Council seemingly negotiate with one another while in the background employers' organisations are trying to make a deal with the government to obtain a tax cut or budget support in exchange for wage concessions to trade unions.

Given that the self-employed are both employer and employee at the same time, bipartite industrial relations are irrelevant for associations of small enterprises. For retailers, collective agreements do not play any role at all. It is a general opinion that retailers are not interested in concluding a collective agreement because it does not provide any advantages but rather costs extra money. Even larger companies try to settle disputes outside court on the basis of mutual trust rather than through a liability insurance policy – no matter that theoretically it would be in the interest of the employer. It is not surprising that employers' organisations' documents or statements hardly ever mention trade unions.

The rather vague expression "cooperation in tripartite bodies", introduced by STRATOSZ, is the wording most frequently used in the documents of employers' organisations if trade unions are mentioned at all. When speaking specifically about the representation of employers' interests, as different from business interests, MGYOSZ primarily mentions participation at tripartite interest reconciliation fora. At the same time, it makes two important restrictions concerning agreements: 1) MGYOSZ can sign agreements only if authorised by members; 2) its representation and other activities may not violate the autonomy, decision making and acting, representation and procedural freedom of member organisations. These two restrictions imply that MGYOSZ cannot sign any meaningful agreement without the concrete authorisation of its members.

Notwithstanding the above generalisations industrial relations are important for the various employers' organisations because of the specific type of

trade union and organisation of member companies they have to deal with and because of a variety of problems to be solved. For instance, ÁFEOSZ regularly warns that collective agreements are definitely worth making because of inventory liability. Authorised by the statutes, in 2003 MOSZ signed an agricultural collective agreement covering the direct members and also members' employees. While it reported no trade unions at its member companies, OKISZ signed an agreement with the Alliance of Autonomous Trade Unions to make working time flexibility possible.

In construction, the organisations fight against black employment by signing a sectoral collective agreement. The initiative, developed in the sectoral dialogue committee, became part of the "100 steps" program of the Gyurcsány government. If a sectoral collective agreement will really be concluded and proves to be efficient in regulating employment in the whole sector, it could become a model for the rest of the sectors and thereby could change the general view on the role of industrial relations. Employers' organisations seem to have reconsidered their roles and see black employment as a problem and are trying to remove the competitive advantage small enterprises have by using black employment.

One reason why industrial relations are not equally important for the various employers' organisations is the organisations' idea of themselves. The difference in the attitudes of MGYOSZ and STRATOSZ is remarkable. The members of both organisations are typically big companies with trade unions, but the two employers' organisations deal with trade unions very differently. It is clear from its documents that STRATOSZ pays hardly any attention to trade unions while MGYOSZ considers industrial relations issues important and maintains regular contacts and talks about current issues with MSZOSZ, the biggest trade union confederation in the business sector. This helps maintain the image that MGYOSZ is the most important employers' organisation in this sector. VOSZ has adopted a similar approach and signed a cooperation agreement with the National Federation of Workers' Councils and LIGA which it renewed in 2004.

Summary

While employers' organisations are very different in terms of traditions, membership mix, relations with their members, responsibilities and the structure of services which they provide they do share some characteristics that are decisively important in understanding the nature of post-socialist industrial relations.

- Both employers' and trade unions' organisations are pluralistic and fragmented, including old and new ones.
- As opposed to deeply politicised trade unions, employers' organisations have avoided the turning of internal power relations into political fighting following the regime change.

- Refraining from visible infighting was also a means of not letting potential organisational and personal clashes become too acute and hinder reasonable cooperation.

- In the 1990s, employers' organisations developed their business management and service providing functions that are key to retaining membership and consolidating finances.

- Partly as the legacy of the socialist period, the memberships of the organisations are well separated and therefore the organisations are not rivals when attracting members, except for VOSZ, to a certain degree. Because of low membership dues and various membership statuses involving different due payments, however, the competition between employers' organisations has led to multiple membership rather than to draining members away from other organisations.

- Similarly to the internal structure of trade unions, member organisations and member companies of employers' organisations are fully autonomous in defining their policies. According to the statutes, they have the right to decide on the centre's policies and the centre's decision power depends on members' authorisation. The centralised structure of the historical GYOSZ is unknown in the employers' organisations developed following the regime change. It is the decentralisation of employers' organisations that is an impediment to the system of sectoral collective agreements which – in the opinion of trade unions and several researchers and politicians – could truly regulate employment relations.

- While the memberships of the various organisations are clearly separate at the national level, this is not true for the sectoral or professional level. Under socialism, employers' were organised by form of ownership and not by sector. As a heritage, there are still several employers' organisations or their sectoral and professional federations in most sectors. This legacy has created a non-transparent and fragmented structure leading to potentially severe interest conflicts.

- It is difficult to know how organised employers are, not only because internal statistics are imperfect and the organisations are reluctant to disclose membership data but also because of multiple membership and the using of a variety of membership categories. Revenues from membership dues are not enough in any of the organisations to enable them to operate properly, not even together with central support and revenues from inherited assets. The interest representation function does not seem to appeal enough to enterprises in Hungary to maintain employers' organisations.

- One of the most important functions of employers' organisations is representing business interests at the national level and to influence the government's economic policy in order to create conditions that are favourable for businesses. By the turn of the millennium, employers developed a largely

uniform concept of the economic policy that Hungary should pursue. One of the most important fora of business interest representation is the National Interest Reconciliation Council in which the ambitions of employers' organisations clearly go beyond giving their opinion on the issues on the agenda and increasingly want to play a role in defining the strategic guidelines of the economy.

- Participating in the system of tripartite bodies is of decisive importance for employers' organisations. On the one hand this is because it involves certain advantages, such as membership in important bodies, opportunities to lobby and access to central support given through competitive grant programs. On the other hand, the broad agendas mostly include economic policy, social policy and labour law regulations that are important for employers.

- The dependence of employers' organisations, however, on participation in tripartite interest reconciliation and on the related organisational advantages impacts the autonomy of these organisations and makes them vulnerable to the government.

- In most employers' organisations interest representation closely intertwines with market related and business management service provision functions; in fact, these services are the greatest appeal to companies and often the greatest source of revenues.

- In addition to these two functions – business interest representation and market related services – the issue of traditional relations between employers and employees is of only secondary importance, if it plays any role at all in the lives of employers' organisations. Most employers' organisations regard trade unions only as one actor in the tripartite arena rather than a partner in the bilateral regulation of the labour market and employment relations.

The structure of employers' organisations has by now solidified and has fitted in the system of institutions. The organisations have found the functions and economic resources that ensure operations in the long run. A problem, however, is that employers' organisations are divided and weak in terms of organisational and expert resources as a result of which they are much less capable of influencing economic policy than their counterparts in developed market economies. One major cause of this is the extremely fragmented and largely inefficient interest representation system. The cooperation between employers' organisations and entrepreneurs is indispensable for successful interest representation. What they need to do is to develop and introduce an economic strategy that reaches over government terms. Interest organisations can only make themselves recognised as true partners of the government if they join forces and develop proposals that live up to high professional standards.

1.2 The Hungarian Trade Unions and Their Future Options

LÁSZLÓ NEUMANN

Today, over fifteen years since grassroots independent trade unions first appeared and the trade unions of the socialist regime started to reform themselves in Hungary, the Hungarian union movement seems to be more fragmented, weaker and lacking in funds than ever. According to several experts because of their ever declining popular support and internal organisational problems, trade unions are not able either to exercise any considerable influence on national politics nor to fulfil their interest representation role – in the strict sense – at the workplace and conclude collective agreements that effectively regulate wages and terms and conditions of employment. This chapter will focus on the internal sources of trade unions' strength: membership and organisation. The author will rely on statistics, mapping studies made in preparation for setting up the sectoral dialogue committees as well as on personal experience and subjective evaluation.

After presenting membership statistics and the organisational models, the chapter will discuss the possible strategies of revitalising trade unions. It is our strong belief that it would be too early to write off trade unions altogether notwithstanding all their current weaknesses: without them there would not be industrial relations in the classical sense. Despite their current weakness, the potential ensured by their remaining membership and assets as well as the system of industrial relations institutions formed since the change of regime and help from their political allies may serve as the basis for renewal. With Hungary's joining the EU, domestic forces and institutions have been given powerful external support. Nevertheless, it has to be clearly seen that these very same forces may help preserve the current organisational frameworks unchanged or even weaken them over time.

Quantitative evaluation: The decline of union membership

While the strength and influence of the trade union movement depends not only on its membership size and workplace presence (c.f. for instance France), examining changes in membership is a commonly accepted method of evaluation. Membership size is especially important in Hungary, where there are no historically embedded institutions and thus the relative weight of trade unions is mostly measurable by their organisational coverage. There are several methods to measure membership size. An evident way is to ask the organisations themselves about the number of paying and non-paying members and add up these "self-reports". *Table 1.1.* shows the figures of active age members and the share of female members given by the six trade union confederations represented in the National Interest Reconciliation Council in early 2003:

Table 1.1: Number of active age union members as reported by union confederations

Confederation	1998	2003	Share of women (2003, per cent)
Alliance of Autonomous Trade Unions (Autonóm Szakszervezetek Szövetsége, ASZSZ)	140 000	120 000	35
Confederation of Unions of Professionals (Értelmiségi Szakszervezeti Tömörülés, ÉSZT)	105 000	85 000	n. a.
Democratic League of Independent Trade Unions (Független Szakszervezetek Demokratikus Ligája, Liga)	100 000	100 000	30
National Federation of Workers' Councils (Munkástanácsok Országos Szövetsége, MOSZ)	60 000	56 000	35
National Association of Hungarian Trade Unions (Magyar Szakszervezetek Országos Szövetsége, MSZOSZ)	n. a.	240 000	48
Trade Unions' Cooperation Forum (Szakszervezetek Együttműködési Fóruma, SZEZ)	230 000	270 000	70

Source: EIRO (2003).

While reformed old trade unions have a significant share of retired employees for whom some of the sectoral and company organisations maintain separate sections, it seems reasonable to leave them out of the calculations of the bargaining force of a trade union. As double membership is practically impossible, adding up the figures given by the confederation plus the estimated 35 thousand members of trade unions outside the confederations will give the total of union membership. Using the Labour Force Survey (LFS) data of the Hungarian Central Statistical Office on the estimated union coverage the level stands at 23.2 percent. At the same time, however, unions are known to inflate membership figures in order to stress their significance even at the expense of paying more membership dues to international organisations. Some unions make membership figures confidential information. It therefore seems expedient to use more objective methods. (As proved later, real membership is about half the self-reported figure.)

The most accurate figure of the total of earning and due paying union members is published in the annual report by the Tax Authority (*Table 1.2.*). As the membership due deducted by the employer features in the annual personal income tax return, it is possible to calculate the number of due payers and the total amount of paid dues. (To be more accurate, the figures tell how many opted for the tax deduction but as in Hungary check-off is the general practice, i.e. the employer deducts the membership fee from the employee's wage, the two statistics are more or less the same.) The annually published figures show a fairly steady decline in union membership.

Tax Authority figures show that due paying membership dropped by 25 percent over the four year period between 1999 and 2002. Calculated by the HCSO figures of the total of employees, union coverage in the last year of the period was as little as 15 percent. The series of data of the Tax Authority

also shows the drastic drop in membership: in 1990 as many as 3.9 million persons paid the union membership due.

Table 1.2: The number of due paying members in Tax Authority reports

Year	Number of members	Year	Number of members
1999	775 000	2002	574 000
2000	700 000	2003	600 000
2001	654 000		

Source: *Kun* (2003).

As of 2001, the HCSO LFS includes a set of questions every three years on the role of employee interest representation. The estimation for the whole population based on the answers of about 30 thousand respondents, have produced very much the same results as Tax Authority records, based on the data base of the total population – despite the fact that in the HCSO survey the “don’t know” answer was relatively frequent, especially if the questionnaire was answered by a family member in the absence of the originally designated respondent. (*HCSO* 2002, 2005) The HCSO Survey is especially useful as, in addition to basic information on the respondent and his/her workplace, respondents are asked about the presence of trade unions and works councils at the work place as well as the respondent’s evaluation of the impact of collective agreement.

Based on the HCSO surveys, the estimated number of union members was 615 thousand in 2001 and 549 thousand in 2004. As a share of the total number of employees, union coverage was 19.7 percent and 16.9 percent, respectively, which is a 2.8 percent decline over the three year period (*Table 1.3.*).

As for the various industries of the economy, in both Surveys electricity, gas, steam; transport and storage; education; health and social work; and public administration are the strongholds of trade unions. Evidently, public services and sectors with state ownership dominance are the most unionised. Unionisation, however, is rather low, around 10 percent, in the sectors of agriculture; manufacturing; and financial activities. The share of trade union members is the lowest in construction; hotels and restaurants; trade; and real estate and renting. Admittedly, these are the sectors where employers are mostly small and medium sized enterprises and the characteristics of employment (seasonal work, flexible work contracts etc.) are not favourable for trade union operation. These statistical figures clearly underpin the findings of earlier case studies as well as calculations on the sectoral frequency and effect of collective agreements (*Neumann* 2001a).

Table 1.3: Unionisation by sectors and by gender 2001–2004 (per cent)

	Men	Women	Total	Men	Women	Total	Change (total)
Sector	2001			2004			2001-2004
Agriculture	5.4	7.9	6.0	9.4	12.5	10.1	4.1
Mining and quarrying	30.2	28.4	29.9	34.6	49.9	37.6	*
Manufacturing	16.5	14.9	15.8	14.6	14.6	14.6	-1.2
Electricity, gas, steam	28	36.8	30	32	30.5	31.5	*
Construction	3.4	3.5	3.4	3.2	9.1	3.8	*
Wholesale and retail trade and repairs	5.9	8.2	7.1	4.2	6.2	5.3	-1.8
Hotels and restaurants	2.6	6.0	4.4	3.2	4.6	4.1	*
Transport and storage	39.5	41.6	40.1	33.1	37.4	34.3	-5.8
Financial activities	12.2	18.0	16.3	10.2	13.2	12.3	*
Real estate and renting	6.9	7.1	7.0	4.5	6.6	5.5	*
Public administration	25.4	33.5	29.3	26.8	25.4	26.1	*
Education	37.9	40.1	39.6	27.2	30.0	29.4	-10.2
Health and social work	33.2	34.0	33.8	26.9	26.1	26.3	-7.5
Other services	12.2	13.2	12.7	12.1	16.1	14.1	*
Total	17.3	22.4	19.7	15.3	18.7	16.9	-2.8

* The difference is not significant, in the rest of the cases $p \leq 0.05$ (in Student's t-test).

Source: HCSO Labour Force Survey.

Between 2001 and 2004, the share of members grew in only two sectors – agriculture and mining – but only because employment shrank more than membership. The share of members dropped the most in two, mostly state owned, public service sectors: in education by 10.2 percentage points and in health care and social work by 7.5 percentage points. It is to be noted that this huge decline took place in the period that includes the year 2002, when the Medgyessy administration raised public employees' salaries by 50 percent.

Both surveys show that a larger share of women were members than men, though the difference was decreasing. (In 2001 22.4 percent of women and 17.3 percent of men were members and in 2003 the percentages were 18.7 and 15.3.) The unionisation of women was greater in almost all sectors.

HCSO surveys underpin the findings that union membership is ageing: members on average are four years older than non-unionised employees, and the difference is slightly greater for men than for women (*Table 1.4. and Figure 1.1.*). In 2004 the share of members was the largest in the age group 50 to 59 (23.3 percent) while the unionisation of the young (aged 15 to 29) was as low as 8.5 percent. Back in 2001, too, the mode was the age group 50 to 59 but the unionisation of the young was a little higher, 11.4 percent.

The Survey enables us to examine unionisation in the various groups of employees. In 2004 13 percent of blue collar employees and 23 percent of white collar employees were union members. By groups of profession, the share of unionised employees is the greatest in the groups of “professionals” and “technicians and associate professionals” while the far lowest level of un-

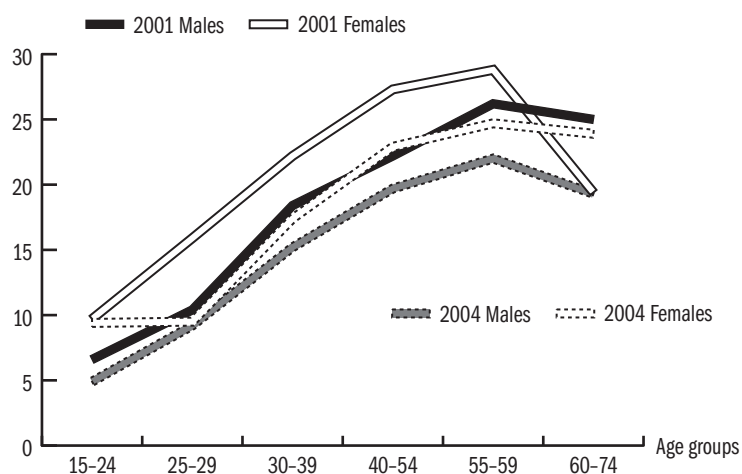
ionisation is found in “skilled agriculture and forestry workers” and in “elementary occupations”.

Table 1.4: The average age of unionised and non unionised employees (2001–2004)

Category	Men	Women	Total	Men	Women	Total
	2001			2004		
Union members	41.5	41.6	41.6	42.2	43.2	42.7
Non union members	36.9	37.9	37.4	37.9	39.5	38.7
Difference	4.6	3.7	4.2	4.3	3.7	4.0

Source: *HCSO LFS*.

Figure 1.1: Unionisation by age groups (per cent)



Source: *HCSO LFS*.

The HCSO survey asked in both years whether there was a trade union at the respondent’s workplace (*Table 1.5*). This figure is the basis for estimating how big collective bargaining coverage trade unions are ideally able to achieve through workplace – to use the legal term: single employer – collective agreements (i.e. in cases in which the law permits collective bargaining in the given area and where the employer is also willing to bargain).

In 2001 37.3 percent and in 2004 33.0 percent of respondents answered “yes” to this question, which is a 4.5 percentage point drop. At the same time, however, many (12.7 percent) gave a “don’t know” answer. Evidently, the answers reflect the respondents’ subjective judgement of the trade union’s role at the workplace, but there is an obvious correspondence with membership by gender, industry and changes over the three years. In 2004 24.5 percent of blue collar workers and 44.5 percent of white collar workers had a trade union at their workplace. The highest share of “yes” answers was given in the armed forces, and the group of “professionals” came second. The least organ-

ised workplaces were reported to be in “skilled agriculture and forestry workers”, in “plant and machine operators and assemblers”.

Table 1.5: Workplace presence of trade unions by industries and gender, 2001–2004 (per cent)

Industry	2001	2004	Change 2001–2004
Agriculture	12.9	13.4	0.5
Mining and quarrying	59.3	52.8	*
Manufacturing	33.8	30.9	*
Electricity, gas and steam	60.0	59.9	*
Construction	8.3	5.8	*
Trade and repairs	14.3	8.0	-6.3
Hotels and restaurants	8.7	6.2	*
Transport and storage	63.2	53.9	*
Financial activities	33.2	26.8	*
Real estate and renting	15.2	11.7	*
Public administration	54.9	51.1	*
Education	68.9	62.9	-6.0
Health and social work	65.5	55.6	-9.9
Other services	26.6	21.6	*
Men total	33.5	29.4	-4.1
Women total	41.6	37.1	-4.5
Total	37.3	33.0	-4.3

* The difference is not significant, in the rest of the cases $p \leq 0.05$ (in Student's t-test).
Source: HCSO LFS.

Organisational characteristics, resources and politics

The confederations and politics. In order to understand the current situation, one must go back to the events in the years of the change of regime. At that time, new grassroots union movements and the self-reformed successor organisations of the monolithic trade unions of the state socialist system fought bitterly over political and ideological issues as well as over legitimacy and assets ones. The legacy of this period is the still heavily politicised nature of the trade union movement and the very tense relationship between confederations.

The economic ideology of post-socialist transition, market liberalisation as well as the dismantling and privatisation of the sector of large state owned companies and the radical restructuring of the labour market and the urgent need to reform the “prematurely born welfare state” (*János Kornai*) would have represented serious political challenges for the trade union movement even without the emergence of union pluralism. In the end, the sharing of trade union assets and the legitimacy of the confederations was settled by an agreement in 1992 negotiated between the union confederations, each helped by the political party it considered its ally. In the public debates, Parliament played a more important role than the Interest Reconciliation Council as the

legal regulation – or the threat of it – was crucial in stopping union in-fighting (Ladó-Tóth 1996). Industrial relations were shaped by a whole series of state interventions: the creation of the labour law including the representativeness criteria which trade unions must meet in order to be recognised as a collective bargaining partner at the workplace (1992); attempts by the Horn administration to set the rules of representativeness for the trade union side in the Interest Reconciliation Council; “anti-trade union” amendments of law by the Orbán administration; the repeal thereof by the Medgyessy government. Modification of the law with each change of government led to pendulum-like swings in the recognition of trade unions and in the legal and economic frames of operation (not only in terms of the distribution of representation rights between trade unions and works councils but also of the distribution of still state owned assets, time-off for officials, tax deductibility of membership fees etc.) Eventually, union leaders came to realise that their operations at workplaces largely depended on the goodwill of the governing parties.

The other cause of the highly politicised nature of the union movement is the way *tripartism* works. Researchers and observers tend to agree that the agenda of the Interest Reconciliation Council fundamentally depends on what the government wants it to include (Ladó-Tóth-Nacsá 2000; Advagic 2005). Suffice it to mention that when the Orbán administration reformed the system of tripartite institutions, trade unions had to acquiesce in the reduced importance of social dialogue, and their roles in it. Nonetheless, trade unions, no more than employers’ organisations, could not be expected to relinquish their fundamental goals and stop trying to influence economic, income and social policies which directly impact the living conditions of their members (Hanti 1999). Furthermore, their ability to shape policies was the foundation for gaining recognition as social partners and political factors (See Tóth and Horesnyi, chapter 2.1 *In Focus*) as well as enabling them to build up prestige and acquire favourable positions.

The fact that there are as many as six confederations on the employee side of the National Interest Reconciliation Council is related to the origins of these organisations. By late 1993 dramatic political clashes were over and the organisations of the confederations consolidated and their relationships normalised at a level which was sufficient for cooperation. Yet the effects of in-fighting are still felt. That “tribal relations” (Gáspár Miklós Tamás), quite usual on the Hungarian political scene, pervade the union movement comes hardly as a surprise, especially knowing that union leaders and apparatuses are mostly the same as in the early 1990s. This seems to be the main cause for why attempts at cooperation or merger between confederations have failed (e.g. the joint declaration of the six confederations made at Mátraháza in 2000, initiatives of LIGA to merge with other confederations, the alliance of SZEF and ÉSZT etc.). Joint actions by the confederations – however ra-

tional they would seem financially – have been limited to a few advisory and international areas (such as participation in the European Integration Committee of Hungarian Trade Unions, in the Economic and Social Council in Brussels, running the advisory organisation ÉTOSZ, seminars run by the Friedrich Ebert Foundation), and even these are often the creations of domestic or foreign sponsors with some “popular front” ideals.

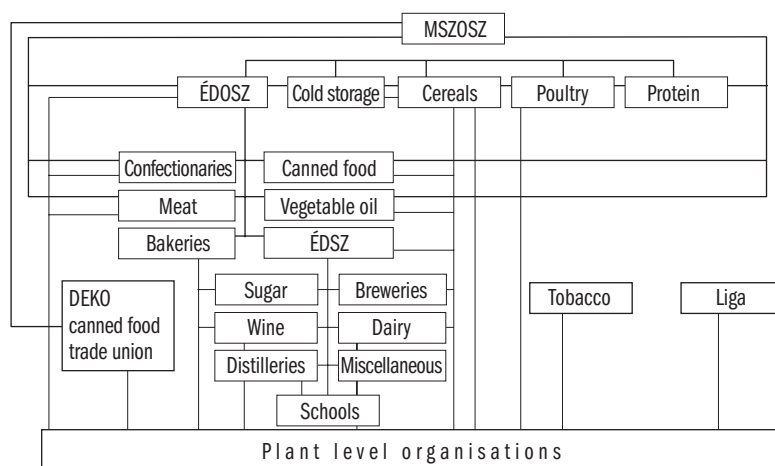
In addition to personal grievances, it is the way how confederations are organised that does not really permit merger. Although it is suggested from time to time that the competitive sector, public utility services and the public sector would be rightfully represented by separate confederations (which implicitly urges merger into three confederations), the real situation is not that simple. MSZOSZ covers some public service and public employment areas (as a matter of fact, one of its clusters is made up of the trade unions in the public sector including businesses in public utilities) just as LIGA comprises member unions in transportation, education and health care. At the same time, confederations are not separated unambiguously by sectors: after the break up of SZOT, the reformed trade unions belonging to the various sectors or sub-sectors joined different confederations, and the new confederations set up their own sectoral organisations in the mid 1990s in order to ensure their participation in the Interest Reconciliation Council. This sectoral pluralism clearly manifested itself in the rivalry of trade unions when the *sectoral social dialogue committees* were set up. Furthermore, any potential rapprochement between confederations is hindered by the every day conflicts of workplace pluralism: members, especially local activists, socialised in confrontation are suspicious of all proposals which would just seem rational ideas of cooperation to an outsider.

At the same time, overt and covert conflicts and rivalry exist between confederations where there is a clear cleavage between the organisational fields of peak organisations, such as between the business and the public sectors. It appears that the confederations have not as yet been able to overcome their conflicts of interest about the desirable level of financing the public sector. The trade unions of the business sector (i.e. at private sector and state owned companies) demand an overall reduction of tax burdens and of budgetary expenditures – finding an ally in employers’ organisations – while what public sector trade unions naturally want is to retain civil servant and public employee jobs and to have a guaranteed increase of salaries, and consequently are not partners in demanding budgetary expenditure cuts. The competitive vs. public sector conflict may be a long lasting tension on the employee side of the Interest Reconciliation Council. Furthermore, there seems to be a rivalry between “old” and “new” public sector trade unions, dating back to the change of regime: the organisations belonging to SZEFG successfully lobbied and used

their political clout in 2004 and managed to pass a bill on representativeness that was favourable for them. (see Erzsébet Berki's paper in 2.3).

Sectoral and workplace organisations. Similarly to employers' organisations represented in the Interest Reconciliation Council, members of union confederations can be both sectoral and company organisations. The lack of a hierarchical and transparent trade union structure is a serious problem mostly at the sectoral level. Members of sectoral federations can be organisations of sub-sectors or specific areas or company trade unions joining directly; this organisational setup especially hinders the conclusion of sectoral collective agreements – as seen when the *sectoral social dialogue committees* were set up (Neumann–Tóth 2002a). The sectoral mapping studies, made in preparation for the setting up of *sectoral social dialogue committees* explored in detail which organisations in the various sectors are rivals and which belong to the same confederations, and how they are linked to one another. The complexity of the situation is illustrated by the organisational chart of the food industry in Figure 1.2.

Figure 1.2: The structure of trade unions in the food industry



Source: Sóki–Dékán (2002).

This complicated sectoral and company organisation and decentralised trade union structure arose around the time of the regime change, when the *one company – one trade union* principle became dominant. The new democratic movements were organised and registered in this form right at the outset; nevertheless, partly as a result of the natural development of a democratic political environment and partly as a result of the mandatory application of Act II of 1989 (the law on associations), company trade unions became dominant in the reformed old trade union structure too. Even though not all of the company trade unions were registered as an independent legal entity, they enjoy

a high degree of autonomy in the (sub)sectoral federations both in terms of using collected membership dues and of shaping their company level interest representation policies. Company trade unions could freely decide which federation they wanted to join and even after becoming federation members they could retain some of their independence from the elected (sub)sectoral union leadership (Tóth 1999b). Evidently, the company level becoming the most important level of union organisation is one of the main causes why collective bargaining has remained heavily decentralised. Other causes seem to be the counter interest of employers to conclude sectoral agreements and the weakness of sectoral trade unions.

As opposed to confederations' level, however, at sectoral level the financial consequence of decentralisation, shrinking membership dues and assets moved unions towards strategic alliance or merger. Recently, trade unions in the textile, clothing and leather industry belonging to MSZOSZ as well as in the printing and paper manufacturing have held such strategic negotiations. At the same time, decision making bodies of MSZOSZ have made a top-down attempt to restructure scattered sectoral trade unions. Its congress in 2002 decided to create six so called clusters, with the following tasks: "Trade unions making up a cluster, shall cooperate in the spirit of solidarity and gradually create, in line with their possibilities, the personal, organisational, material and financial conditions for a more integrated operation at the national, regional, county and local level" (*Érdekvédelmi...* 2004, pp. 55.). At the same time, as a side effect of institution building related to the setting up of the *sectoral social dialogue committees*, the strengthening of sectoral actors has lead to a legitimacy crisis of the leadership.

Conditions of operation. Both at the confederate and sectoral levels, the main obstacle to an appropriate level of interest representation is the lack of specialised staff. Evidently, trade unions have hardly enough experts to fill tripartite committees; frequently the same persons participate at meetings that would require very different kinds of knowledge and specialisations. Confederations have at most ten to twenty full and part time staff. There are scarcely any sectoral trade unions with a staff of more than a couple of persons. (Sectoral trade unions of similar size of membership in Western Europe maintain a staff of several tens, occasionally hundred of persons.) This level of staffing is obviously not enough to fulfil interest representation tasks in the strict sense, which in Hungary include not only sectoral collective bargaining, participation in social dialogue committees and lobbying activities to influence sectoral policies but also technical assistance to company unions, which is indispensable because of the decentralised nature of organisation and bargaining (helping in recruiting members, in getting the recognition of the company management after the organisation has been set up and later in collective negotiations and potential conflicts.) Plummeting membership and

collected dues force trade unions to cut expenses and staff, including those doing the interest representation jobs. (For instance, MSZOSZ laid off staff in its rural interest representation network a few years ago.) Staff members tend to be the very same as at the beginning and trade unions have hardly employed any fresh higher education graduates.

The shortage of experts is the result of the dire financial situation of trade unions. In the past decade, trade unions have covered operation costs from three sources: inherited or redistributed union assets (typically selling real estate), membership dues and grants from public funds. All of the union confederations and the majority of sectoral centres have already consumed a great part of their assets: under extensive media coverage, they have sold their headquarter buildings and moved the offices to smaller, sometimes rented, premises. Considerable sectoral funds collected for strike situations or to pay aid to members are also missing in Hungary. (The only exception is the electricity industry, in which, at the time of privatisation, trade unions successfully fought to set aside 1 per cent of the sales revenue as a separate union managed fund to alleviate future employment problems.)

Tax Authority records say that the total amount of membership dues in 2003 was about HUF 4 billion. Confederations and sectoral federations, however, receive only a small share of this amount. Customarily, the payable due is 1 percent of one's gross wage, but as a kind of side effect of workplace pluralism, several trade unions have lowered fees to out-compete the other trade unions at the company. The majority of collected fees are used locally, most of it to pay aid and throw traditional workplace parties. Several say that this is what members want because they became used to these kinds of trade union "services" in the socialist era. In principle, company unions should pay 40 to 60 percent of collected fees to higher level organisations; sectoral federations, however, report much smaller transfers. As already pointed out, the poverty of union centres is partly the consequence of company trade unions' autonomy gained in the course of the democratic transition.

With inherited assets gone and membership due collections dwindling, trade unions had to find other sources of money. As of the mid-1990s, grants from the Hungarian government and public organisations and from international organisations, have been playing an ever more important role. It has to be noted that in addition to the more or less public financing of projects, since the solidification of the new pluralist structure trade unions' policy has been to grab various influential positions in state institutions, their main argument being that in Western Europe social partners participate in the management of pensions, unemployment insurance, vocational training and other special sectoral funds. In Hungary this became possible after 1993 when trade union and employer representatives first participated in the steering committees of the social security funds. While scandals around the funds made it easy for

the right wing government coming into power in 1998 to remove employer and employee representatives, in practice in Hungary participating in asset management and allocation mechanisms has never been limited to the area of social security. Then, with the socialists' winning the elections in 2002, trade unions renewed their efforts to demand positions in the various corporatist structures as well as the kind of regular normative transfer from the state's personal income tax revenue that churches and civil organisations get. Their underlying ideology was that trade union activities should be recognised by the state as "public goods".

While governments to date could not support trade unions openly, the share of unions' revenues from public funds has been growing since the Horn administration was in power. According to estimates, in 2003 the whole of the trade union movement received HUF 1.5 billion under various titles. Trade unions have been annually given the same amount of central support as employers' organisations, earmarked for a range of tasks such as preparing for EU accession, representation in EU level organisations, education, research, running the sectoral social dialogue committees etc. Yet, knowing the difficulties of delimiting the various tasks, one should assume that an ever larger share of the operating costs of trade union headquarters is financed from public funds. At the same time it has to be recognised that without targeted support the new institutions just would not survive.

In lieu of summary

Trade union models and strategic choices. In the period immediately following the regime change trade unions were fighting for survival; then in the decade after the consolidation of the new pluralistic structure the whole trade union movement suffered significant losses. Each of the unions lost membership and a great part of their inherited assets as well as their mobilising force, which was quite significant at the beginning of privatisation. Parallel with this, they became increasingly dependent on the institutions of social dialogue set up by the various governments and on the possibilities of lobbying through these institutions. This fact, as evidenced by the political turns over the past fifteen years, has made unions' vulnerable. It seems that under the current government it is a strategic issue for trade unions to stock up enough reserves to survive if a right wing government comes into power in 2006 again.

Over the past fifteen years, however, trade unions have pursued different strategies. Here briefly the organisational and functional models will be discussed that have been taken over from Western Europe and the US by Hungarian trade unions mostly as a conscious strategy of union leadership or sometimes as the result of spontaneous development. (The latter type of models serve mainly only as an analytical tool.) One focus of the analysis will be how much these strategies may help strengthen the organisations.

The oldest model in the history of trade unions is *craft unionism*. As known, before the communist take-over of power in 1948 this was the most widespread organisational principle in Hungary, and after the regime change, some of these organisations were revived. One such organisation is the Railway Engine Drivers' Trade Union, which showed its strength in organising railway strikes. Furthermore, in the specifications of the criteria of collective bargaining, the 1992 labour law recognises the concept of trade unions covering the majority of workers in a given profession. Interestingly enough, an extreme of company trade union pluralism is found in transportation: the employees of whole companies (MALÉV or Budapest Airport) organise on an occupational basis. The experience of the past decade suggests that these kinds of trade unions have been successful only in monopolist public service enterprises where strikes could potentially paralyse the whole country, and because of their being state-owned, the company's budget constraints are soft. Most of these unions, however, have closed themselves up within the company, thus control over the occupational labour market, which traditionally is one of the main strengths of craft unions, could hardly be exercised.

Sectoral trade unions, similar to the dominant Western European model, were first set up in the state socialist period and have survived to this day. The socialist legacy, the democratisation coming along with the regime change and the traditional system of collective bargaining, however, helped the creation and the strengthening of the *company trade union model*. Newly created organisations adopted this model too, and in the new confederations there were no sectoral organisations at all at the beginning. Sectoral trade unions in Hungary are in fact alliances of company trade unions and do not have the kind of power over workplace trade unions which Western European ones have. In the Western model sectoral unions can conclude collective agreements without involving company trade unions, can give them instructions, control their activities and even dissolve them. With the new sectoral social dialogue committees, however, sectoral trade unions are likely to gather some strength. With respect to unions' ability to appeal to their (potential) membership, however, it seems that company trade unions will have to step up efforts to recruit new members at organised workplaces. (At least this is what the findings of a trade union survey in 2000 suggest. According to this survey, employees appraise those activities the most that influence directly their living and working conditions.) (Pataki *et al* 2000.) If trade unions want to conquer non-unionised workplaces, first they will have to set up strong sectoral trade unions which are able to efficiently assist local trade unions to become organised and operate. Finally, for the sake of completeness, the model of *general trade unions* can be mentioned, which comprise several professions and employees of several companies on an *ad hoc* basis. Such organisations

are found mostly in confederations set up at the time of the change of the regime, but these have remained rather insignificant.

As for the political and/or ideological dimension of organisation, the pluralistic, *competing trade union* model was dominant in the years following the regime change. Sharp political clashes are over, but disagreements have remained latent, evidenced by unions' relentlessly trying to drive each other out of the representation arena. (At least this is what the representativeness rule for the public sector introduced in 2004 suggests. Also, the large trade unions in the National Interest Reconciliation Council regularly propose to "restructure" their side.) Despite the latent political and ideological rivalry, large trade unions following the *social democratic* course dominate the Hungarian union model. Generally, the sort of goals and roles a trade union assumes does not necessarily mean that it maintains relationships with political parties pursuing similar ideologies. An exception is MSZP (Hungarian Socialist Party) and MSZOSZ, which openly admit their alliance. (Apart from these, only one confederation appears to be ideologically committed: the National Alliance of Workers' Councils defines itself as a Christian union movement, looking for international partners and home party-alliances along these lines). At the same time, knowing the popular negative appreciations of politics and political parties in Hungary, any open political affiliation is clearly not the right way to build up membership, and Hungarian trade unions cannot really be defined as "Richtungsgewerkschafts", connected to one political and/or ideological orientation or another.

Between 1991 and 1995 MSZOSZ adopted a social democratic policy and made broad social policy demands: compensation for the losers of the economic transition, extending welfare state services and the inclusion of trade unions in the decision making mechanisms of the social policy institutions of the state. In the beginning this policy was highly successful, especially in the sense that it consolidated and legitimised the biggest of the self-reforming successor organisations of the state socialist trade union. (Tóth 2001) The effort, however, to expand the role of the social partners failed: in 1994 and 1995 a social pact (*the Social and Economic Agreement*), which would have been a formal agreement over the demands, was eventually not concluded and none of the welfare-state-type parliamentary election campaign promises could be fulfilled in the given term of the respective governments. Nevertheless, the social democratic role MSZOSZ assumed has ever since been determining the nature of its demands. It would be reasonable for the confederation, however, to understand that in an open economy and in face of the current macroeconomic challenges it is quite unrealistic to demand "European wages" or "transition to a welfare state". Curiously enough, with accession to the EU, the popularity and appeal of the "*European social model*" has grown, and today not only MSZOSZ but the rest of the national union

confederations have adopted it into their rhetoric. The question, however, is how much making illusory promises and populist demands can help strengthen the organisations in the long run.

Undoubtedly, the other very popular model is „*business unionism*”, even if the term is not widely used in Hungary. One of the reasons why this model concentrating on the financial well-being of the membership through collective bargaining has so much penetrated is that in the early years of grassroots movements American trade unions provided substantial support and influence. Equally important is the internal development of organisations and disillusion with politics. Given the decentralised union operations and the leadership of sectoral trade unions being dominated by company delegates, this pragmatic approach seems to be adequate in this country. In Hungary business unionism is not limited to the company level but can also be the strategy of sectoral alliances and confederations. For instance, SZEF and the Alliance of Autonomous Trade Unions as confederations pursue a party-neutral policy and their primary goal is to represent the financial interests of their members and successfully bargain to set wages, potentially through national level agreements. It is to be noted, however, that this model is rather narrow minded in the sense that it concentrates exclusively on the needs of its employed members and has proved to be unable to stop the decade long decline of unions – at least in the Anglo-Saxon countries where it originates.

Earlier there were attempts at adopting the „*service trade union*” model. Theoretically, the state socialist trade union traditions could have been an appropriate basis as distributing company welfare and other services to members had been one of the main functions of trade unions in the socialist period. In the early 1990s MSZOSZ had plans to provide its members a range of services (bank cards, insurance, reduced price goods) but union assets that should have financed these services were consumed too fast. Union resort homes were privatised, and the only thing that has eventually remained is accident insurance for members at some of the sectoral alliances. Of course, trade unions still provide their active and retired members some workplace services (such as free legal aid, reduced-price goods), but these are just marginal in their strategies.

Possible strategic answers. As a matter of fact, there are few realistic “strategic choices” for union leaderships to counter complex external and internal challenges such as economic, political and technology changes, or the shrinking membership. Decisions are constrained by circumstances as well as internal governance and the cultural traditions of the organisation (Undy *et al* 1996). One possible way to cope with the diminution of membership and resources is to adapt to the situation and cut costs and activities, but this may threaten the survival of the trade union. The other option is the route which Western European sectoral trade unions have often chosen in order

to survive: merger with similar organisations, which offers the advantages of economies of scale, or fusion into a bigger organisation with greater organisational resources, the services of which then are made available for newcomers. Basically, these are the two solutions Hungarian trade unions have opted for too. The first is quite common while the second is only a realistic prospect. The other two options are hardly a possibility in Hungary: the first is to raise membership fees or centralise resources, which is feasible for a sectoral organisation only to the detriment of company unions. The other option is to change the organisation's ideological line and strategy and find new political allies. For instance, adopt a more militant bargaining strategy in the hope of winning new members. Under the Hungarian conditions, however, such a strategy can lead to the defeat and potentially to the cessation of the company trade union. Unions can, of course, combine the various strategies, but Hungarian trade unions will probably have to find a solution themselves that best fits their special situation.

The “*organising unionism*” model, developed by the American trade unions in the 1980s and 1990s in response to their shrinking membership, can be of some help to Hungarian trade unions. This model, which can be regarded as the rediscovery of trade unions as a social movement, is based on organisational renewal, making the organisation of the trade union a priority and emphasising a broader interest representation policy paying special attention to the economic and political representation of various non-unionised minorities (such as immigrants). Through the education and mobilisation of the members, it aims to improve internal democracy and strengthen the union identity and solidarity of members (*Organizing Model...* 1991). The question, however, is whether Hungarian trade unions will try to organise young people or “conquer” non-unionised workplaces. Will they try to be more appealing for the traditionally non-unionised employee groups by, for instance, reforming their insider representation strategy?

Interestingly enough, in Hungary most recruitment campaigns took place in the early 1990s. Grassroots trade unions, naturally, were set up at the time of the change of the regime, and the largest campaigns of reformed trade unions took place around 1993. They primarily targeted green-field foreign enterprises: for instance the Metal Workers' Trade Union made several attempts to organise the Suzuki plant in Esztergom (*Tóth* 1996). The most active sectoral organisations of MSZOSZ exploited the works council elections in 1993 and 1996 to get in green-field plants in trade, machine and textile manufacturing. (*ibid*). While sectoral trade unions still provide technical assistance to the “laymen” activists of young trade unions, their capacity is too small to maintain contacts with the works councils at enterprises where there are no trade unions. Vocational training in schools and at enterprises, which is the traditional source of membership supply, has shrunk over the past decade.

Recruiting new members therefore is practically limited to workplaces where the local trade union is strong and able.

The fact is that Hungarian trade unions have not managed to recruit a substantial number of new members yet, partly because the legal regulation makes it onerous for trade unions to enter workplaces where they do not have members, and partly because of hostile company management or the apathy of employees to be organised. The organisational problems are obvious too: neither sectoral trade unions nor confederations have the necessary skilled staff and budgets to start large recruitment campaigns. While theoretically all union leaders agree that the decline of membership could be stopped by recruiting, it is not a priority goal of their strategies.

At the same time, apart from mobilising resources, the shift toward organising unionism requires the rethinking of the whole of the union representation philosophy. In the early 1990s, the goal of the government and of social partners was to improve national tripartism as well as the process of concluding sectoral collective agreements, though the latter only to a lesser extent. Or, to be more accurate, trade unions adjusted their strategies to the model of industrial relations the government offered: build up corporatist institutions at national level. As a result, entrenching themselves in these institutions became their primary objective, especially after a legal provision in the mid 1990s made the presence of a member organisation in national tripartism a precondition to participation in lower level fora. As discussed, this strategic choice has led to the politicisation of trade unions as a consequence of which they are exposed to party politics. Developing and operating workplace level institutions was largely left to the company management and local trade unions locked within the company. Instead of real workplace interest representation and recruitment, in the pluralist structure, trade unions' energies are consumed by strengthening their positions in national forums and in the new sectoral dialogue committees. The grassroots organisations of the democratic transition and company unions insisting on autonomy have been gradually replaced by a top-down legitimacy policy of trade unions, especially of the "new" confederations, since it became clear that they would be unable to recruit significant membership (*Neumann 1996*). Even successor organisations, with their well developed sectoral structures, expect the state to intervene and extend existing collective agreements, and spread their influence through the extended agreements on employers in the sector where there is no trade union. This expectation too follows the top-down logic: through the extension the collective agreement coverage will be one hundred percent without having to bother about cumbersome recruiting and local bargaining. Eventually, of course, neither the new nor the old trade unions' expectations were fulfilled because employers did not support them.

In Western Europe there are several examples how legitimacy from above and the extension of collective agreements works (*Traxler–Behrens* 2002). But a precondition, just as in the case of the regular social dialogue in the EU, was an already existing and well working industrial relations system which made it possible for employers and trade unions to negotiate and jointly regulate the conditions of work and employment (*Jannsen* 2002). Without historically established institutions and workplace interest representation, transposed institutions are not likely to succeed. The implication for the strategic choices of Hungarian trade unions is that they have hardly any alternatives to strengthening their presence at the workplace, i.e. they should pursue a balanced policy in which higher level operations do not overrule the tasks of workplace interest representation and recruitment.

2. THE INTERMEDIATE LEVEL OF INDUSTRIAL RELATIONS

2.1 Regional Industrial Relations

JULIANNA HORESNYI AND FERENC TÓTH

The definition and characteristics of regional industrial relations

Regional industrial relations refer to those forms of cooperation in which the actors are organised along the territorial principle and their activities focus on a given geographical area. In this interpretation, regional industrial relations together with sectoral industrial relations constitute the intermediate level of industrial relations. In Hungary the regional dimension is essentially linked to the county-level¹³ including bipartite, tripartite as well as multipartite relations. With the dismantling of the earlier monolithic and centralised structures and with the introduction of a pluralistic system, a great variety of institutions were created at the time of the regime change. The development of these institutions, however, was highly uneven and often controversial.

Developments of the past fifteen years have highlighted that

1. bipartite regional industrial relations hardly exist at all, and currently there is only one regional collective agreement¹⁴ (not to be analysed here);

2. tripartite relations have undergone a substantial development that can be separated into four different stages. In 1989, the institution of the so called *employment crisis zones*, the first, basically centralised interest reconciliation mechanism designed to address regional employment crisis situations was set up in cooperation with the National Interest Reconciliation Council.¹⁵

Thus the National Interest Reconciliation Councils, set up in December 1988 for general tripartite consultation and central wage negotiations, was the first institution to address the employment crisis in several parts of the country. Within this forum, attempts were made to establish the formal institutions of regional interest reconciliation. While this system of institutions was not supposed to break away from the overall system of economic administration of the time, it was clear that the major actors of the concerned areas and regions had to be involved in the process of interest reconciliation, i.e. go beyond the system of reconciliation within the state and party administration. The “interest reconciliation mechanism”, as it was called at that time, established in 1989 to address the employment crisis in counties and small-areas worked along the following lines: 1. in case of employment crisis in a county, a small-area or a region, members of the National Interest Reconciliation Council could propose to qualify the given territory as a *crisis zone*; 2. in case

13 Defining the county as the spatial unit of industrial relations is, of course, a matter of the dominant type of relations. In certain cases, other – smaller or larger – spatial units are the (potential) scene of intermediate level industrial relations.

14 The Jász-Nagykun-Szolnok County Organisation of Traders and the Jász-Nagykun-Szolnok County Organisation of the Trade Union of Commercial Employees signed a regional collective agreement in 1999 for an indefinite period of time, but did not fully use their statutory manoeuvring room. The agreement covers a relatively little area of regulation compared to what the law permits, and often only repeats the provisions of the Labour Code and includes items that are unfavourable for employees.

15 *Decrees regulating crisis zones* are the following: Decree of the Council of Ministers 143/1989. (XII.22.) on the Employment Fund and its use in crisis zones; Resolution of the Council of Ministers 1069/1990. (IV.23.) on extra support for zones in a crisis situation of employment in year 1990; Government decree 1050/1990. (XI. 17.) on the use of extra support available for areas qualifying as crisis zones of employment.

the motion was approved, the National Interest Reconciliation Council set up an experts' committee that reviewed the employment situation and submitted its opinion to the Council; 3. the final decision, i.e. to declare the given territory to be a crisis zone or not, was made by the National Interest Reconciliation Council. It was also the Council's prerogative to specify the amount of the extra financial support provided for the crisis zones from the Employment Fund; 4. a local interest reconciliation body was set up in each crisis zone with the participation of local social partners and the local government, as well as that of the representatives of relevant central agencies (ministries, public authorities and state development institutions); 5. the local interest reconciliation council decided about the allocation of the financial assistance specified by the National Interest Reconciliation Council, on the detailed rules of using the extra financial support.

In the micro-regions of the country (altogether in six counties), where the employment problems of large companies in a crisis situation could only be solved with central government help, a new interest reconciliation system started to develop in 1989 which included several local and central (state administration) participants and local elements, the "legal successors" of which are the later established county labour market boards. See in detail: *Ladó-Tóth* (1990a), (1990b); *Tóth* (1996), (1997), (2001a).

The next phase, which started with the setting up of labour market boards in 1991 and lasted until 1996, was the pluralistic and decentralised stage of autonomous and spontaneous self-organisation of regional tripartite industrial relations. The outcome was a pluralistic and decentralised structure of regional tripartite industrial relations.

The current corporatist-regulatory stage began in 1997. Corporatist-type functional interest reconciliation¹⁶ bodies have become dominant, replacing or setting up the duplicates of autonomous, pluralistic bodies of the previous years, based on the self-organisation of the participants. In the new bodies the number of participants has become limited, and their selection has been regulated by legislation.

To changes over the years, i.e. the move towards a corporatist system in industrial relations, especially at regional level, can be best grasped if discussed in the general context of pluralism. The distinct characteristics of the system of *pluralist industrial relations* is that i) it comprises an indefinite number of various and freely organised, autonomous and independent competing actors, and ii) its formal institutions are not parts of an hierarchical structure. Furthermore, iii) neither the actors nor the institutions hold public functions, state authorisation; and iv) are neither supported nor established by the state. Similarly, v) the state does not control the recruitment of members, or the representation and pursuing the members' interests. The actors and institutions of pluralist industrial relations are not in a monopolistic position in their respective areas. *Corporatism*, however, is largely the opposite of these: corporatist industrial relations include only a limited number of actors, forced into alliances, which are not rivalling; institutions are in a hierarchical structure and are functionally separated from each other. Actors/institutions are authorised or recognised by the state, or may even be set up at the instigation of the state. They have a monopoly in representing interests in their areas and function as corporations. (*Tóth F.* 2003, pp. 68–74.)

16 The functional interest reconciliation bodies are made up of appointed participants and the government or the local government negotiates with social partners over issues regulated in special laws (such as employment policy, work safety). Autonomous interest reconciliation bodies are self-organised and function on the basis of organisational statutes rather than legal provisions, therefore the responsibilities of participants are different (*Tóth* 2004, p. 119.).

3. At the same time, over the past few years, a variety of *multipartite relations* has developed (multipartite small-area development councils were created, made up, among others, of local social partners; employment pacts were concluded based on local partnership which are important instruments to involve civil and social actors in planning and implementing regional employment policies etc.).

4. A formal connection has been developed between the central and the regional level of industrial relations through the nomination procedure of the participants. As opposed to the years after the change of the regime, according to current regulation¹⁷ only those county or local organisations can participate in tripartite and multipartite regional fora which are affiliated to a national employer or trade union confederation which is involved in macro level interest reconciliation, i.e. currently is a member of the National Interest Reconciliation Council.

To sum up: currently, the bipartite institutions of industrial relations – such as collective bargaining, collective labour disputes, strikes – hardly exist at regional level (except for the one single collective agreement, mentioned earlier). The formal, institutional structures of bipartite industrial relations (such as bipartite councils) are also essentially missing. Tripartite and multipartite fora do exist, but they are almost exclusively functional bodies, brought about by legislation, rather than fora for consultation and negotiation created, autonomously and voluntarily, by the parties themselves. The key formal institution at regional level, the real “battle field” for regional social partners is the labour council, established in the counties. The labour council, on the one hand, is the regional body for negotiations on the allocation of public financial sources aimed at promoting employment, training and the professional rehabilitation of disabled persons, as it is stipulated in the Employment Act. But on the other, the labour council is an important consultation and decision making forum on several other issues, giving regional actors of industrial relations legitimacy and an autonomous role to play.

The analysis of regional industrial relations therefore focuses on labour councils. We will outline the normative rules regulating the composition, competence and decision making mechanism of labour councils, with a special view to the changes over the years. Attention will be devoted to the relationship between the labour councils and the so called labour centres, the county level units of the Public Employment Service. The way in which labour councils are connected to the so called Labour Market Fund (the major financial source for employment related purposes) will be also revealed, similarly to their role in the implementation of the Human Resources Development Operational Program (which is the overall framework for using European Social Fund). The relationship of labour councils with other formal institutions primarily with the regional development councils (created in the

17 See: Act IV of 1991 (the Employment Act) on the enhancement of employment and benefits for the unemployed as amended in 1996.

so called statistical-administrative regions of Hungary) will also be touched upon. It is our hypothesis that central administration and political will keep regional institutions of industrial relations in the cycle of “dismantling rights and competences – providing rights and competences – dismantling rights and competences” (Horesnyi 2003), and this is the periodically changing environment, within which the labour councils have to try to adapt to similarly changing and structured local interests and priorities.

The regional actors and institutions of industrial relations

In a given geographical area, in theory, two types of regional social partners could operate: i) employer organisations and trade union organisations organised along the territorial dimension and having a definite regional scope and ii) the local and regional branches of the national employer associations or trade union confederations. In addition to these standing coalitions, temporary collective representation can also be created for a specific purpose, such as a group of workers calling for strike or an ad hoc coalition of employers concluding a collective agreement with a regional effect. Furthermore, it is possible for social partners to formalize their regional cooperation in the framework of, a county trade union round table, a consultation forum of employers, etc. Theoretically, a wide range of institutions of industrial relations could also function at regional level: these can be collective agreements, collective labour dispute, tools of exercising pressure, participation in the various consultation and negotiation fora of interest reconciliation.

At the time of the change of the economic and political regime, generated partly by the rebirth of pluralism, the actors and institutions of industrial relations were mushrooming also at regional level. These developments were, understandably, unregulated and resulted in various rivalling regional social partner organisations and competing regional institutional structures.

By now, however, the situation has stabilised. The actors and institutions of regional industrial relations have consolidated. New social partners are (can be) seldom established as their would be role in representing and defending the relevant interests depends not only on their being regionally active. In order to be part of key regional fora, the labour council, and thus to have an acknowledged voice at regional level, the new social partner organisations have also to be part of the vertical structure of social partners, i.e. only those local organisations are allowed to participate in regional interest reconciliation that belong to a national organisation. This means that a newly established regional actor can participate in regional tripartite or multipartite interest reconciliation only if it joins a national confederation to gain regional (top-down) legitimacy.

Being a member of the labour council, however, provides with additional privileges. Regional social partners are could become involved in any other

regional or local fora of industrial relations only through being first a member of the labour council (horizontal legitimacy).

Labour councils in the focus of regional tripartism

Labour councils,¹⁸ the tripartite structures for regional interest reconciliation in employment issues, have become key institutions of industrial relations in Hungary over the nearly fifteen years from 1991, when they were set up, to 2005. Currently, there are nearly 400 representatives on the three sides of the 20 (19 county plus Budapest) labour councils, and additionally, about 200 more are regularly involved in interest reconciliation in various special committees, experts' committees, preparatory committees and *ad hoc* committees.

The history of labour councils: from voluntary cooperation towards institutionalized bodies

The legal framework of labour councils did not change almost at all from 1991, when the Employment Act came into effect, until late 1996. The Act CVII. of 1996, in force as of 1st January 1997, however, substantially changed the structure of the councils and their participants.

There were several considerations underlying the restructuring of labour councils. First, it was part of the increasing state intervention in interest reconciliation institutions, primarily through legislation, which started in the mid 1990s. Second, it was a response to the widely shared opinion of regional social partners that the delegations of employers and workers organisations in the councils, once created by self-organisation, became rigid and closed. They did not cover all who demanded interest representation at regional level. Additionally, as there were no criteria for representativeness, social partners which in reality had no membership could remain in the council.

Prior to restructuring, the composition of the various county labour councils varied significantly, reflecting the differences in the level of development and organisational principles of social partners across the counties. The size of the councils, and of their respective sides, was very different (one county council had 40 representatives while the other only 9; as for the trade union side, the number of representatives ranged from 3 to 18; while the differences were smaller on the employer side, 3 and 8 representatives on the two extremes). Labour councils included not only the regional organisations of national confederations participating in the central consultative forum of the time (the Interest Reconciliation Council), but other social partner confederations as well (National Association of Christian Social Trade Unions, Solidarity/Szolidaritás), the various organisations of the unemployed (for instance, the National Federation of the Unemployed and Job Seekers Associations), the Hungarian Medical Chamber etc. This regional variety resulted in

¹⁸ The Employment Act defines the councils and their basic responsibilities and competence as follows: the county (Budapest) labour councils (hereafter: labour council) work in the counties (in Budapest) as a body made up of members representing employers, workers and the local government to reconcile interests related to providing assistance in the area of employment and labour market training and the professional rehabilitation of disabled persons. The term of office of councils is four years.

a clear dominance of some national social partner organisations. On the trade union side, nationally 41 percent of the seats in labour councils were held by the National Confederation of Hungarian Trade Unions, 18 percent by the Trade Unions' Cooperation Forum and 13 percent by the Alliance of Autonomous Trade Unions. On the employer side, the dominant organisations were the members of the National Federation of Agricultural Cooperatives and Producers, the National Association of Retailing and Catering Entrepreneurs, the National Association of Craftsmen's Corporations, the Hungarian Industrial Association and the National Association of General Consumer Cooperatives and Trading Associations. Employer associations representing large employers were hardly present (the Hungarian Employer Association, the Confederation of Hungarian Employers and Industrialists and the Union of Agrarian Employers together held as few as 16 percent of seats).

The controversial Act CVII of 1996, in effect as of January 1997, made the structure of the labour councils uniform. As a result, the relative weight of actors in the councils changed, the influence of earlier dominant social partner organisations decreased (sometimes substantially) while that of others grew. Provisions of the law:

1. Specified the criteria for membership in the labour council; as the precondition was the membership in the national (macro level) consultative structure, the number of potential social partner organisations which could send delegates to the councils was considerably reduced; with the introduction of the common criteria for membership the self-organisation of the trade union and especially of the employer side was definitely constrained.¹⁹ Representatives of employers and employees in the labour councils became nominated and recalled by the county branches of national social partner organisations participating in the National Interest Reconciliation Council. On the third side, local governments were represented by delegates from the county (Budapest) assembly and from cities with county rights in the given county.

4. In order to ensure 2. defined the labour council as a corporation with a four year term of office; the members became formally appointed by the director of the labour council for the period of the term, and the director had the right of recall.

3. Set the lower and upper limit of the number of delegation members of each side at 3 and 6, respectively.

Responsible and good-faith financial management of the Labour Market Fund rules on conflict of interests were introduced (while the labour councils themselves were also empowered to introduce additional rules), according to which owners, senior officers or key personnel of organisations providing regular services (training, placement)²⁰ for the clients of labour centres could not be members of the councils. The labour council could also exclude

19 Delegations of local governments had been composed on a different principle, so the introduction of general criteria for membership did not have a significant effect on that side of the council.

20 The Employment Act names only training institutions and private placement agencies. Currently, however, there is a relatively great number of other service providers, which – sometimes with the support of the labour centres – also provide services (for example career counselling, job search counselling) for the clients of labour centres.

any other members in its own capacity should other types of conflict of interests arise.

5. Confirmed that only representatives holding a letter of commission from the director of the labour centre could participate in decision making (which meant that in case a member could not be present, he/she could not be represented by proxy).

6. Regulated the rules of decision making. Decisions of the council were to be made by consensus, with each side having one vote.

The new legal framework, debated widely, forced most of the councils to implement significant changes (see in detail *Tóth F. 2001c*). Constraining self-organisation and standardising the structure of councils made fundamental restructuring unavoidable. Changes included the followings:

1. In several counties, the number of representatives in the council had to be reduced while in others some additional representatives had to be added to one side or the other. This “administrative obligation” essentially reshuffled the power relations among the regional social partners (for instance, in one of the councils, the trade union side had to be cut back from 18 to 6 representatives). A common difficulty arose from the fact that while nine national employer confederations participated in the Interest Reconciliation Council as few as six representatives could get mandates in the new labour councils.

2. The new regulation created an anachronistic situation primarily on the trade union side. The local organisations of each of the six national confederations represented in the Interest Reconciliation Council demanded seats in the labour council, even those which previously had not been part of the self-organised delegations due to their small membership.

3. The new legal framework substantially changed the composition of the social partner organisations represented in the respective sides. While earlier several regional organisations belonging to the same national confederations could get representation, practically it was not possible any longer. All national social partner confederations insisted on their right to nominate a representative to the labour council, irrespective of the actual strength and capacities of their county branches. Thus, the new legal framework inevitably increased the competition among social partner organisations.

4. Regional social partners not affiliated to national confederations having representation in the Interest Reconciliation Council found themselves being excluded from labour councils (like the National Association of Christian Social Trade Unions, associations of the unemployed, chambers), while social partners taking part in national level consultation and negotiation happened to gain further advantages through their “automatic” right to become members of the labour councils.

5. As regional social partner organisations could get regional representation only if they belonged to national confederations having a seat in the In-

terest Reconciliation Council (so called top-down legitimacy), the hierarchy between the three (macro/national, intermediate and micro/enterprise) levels of industrial as well as vertical coordination gained importance.

6. Several national confederations suffered substantial losses as regards their seats in labour councils (the National Confederation of Hungarian Trade Unions lost 55 percent of its seats but still remained the strongest trade union representation), while other national confederations considerably grew their involvement (the presence of Confederation of Unions of Professionals increased from 5 counties to 19).

7. The new legal framework prompted the social partners to reconsider their internal organisation structures (national confederations had to establish their county based branches and clearly define the role of these organisations). All these changes lead to a visible strengthening of social partners at regional level.

8. Restructuring offered a possibility for social partner organisations to carry out a “quality change” by replacing their less competent representatives.

9. At the same time, the quantitative constraints imposed by the law meant a challenge for some of those social partner organisations that once had had the majority of seats on their respective sides but now lost their dominant power.

No doubts, the new legal framework has shocked the labour councils, bringing both positive and negative consequences. More importantly, the outcome of the “big restructuring”²¹ in 1997 has solidified: the representatives have been the same persons (with the exception of the local government side where representatives tend to change with local elections) and the power relations have remained practically unchanged. This is primarily due to the fact that there have been no elections for representatives of social partners, which is one of the consequences of the controversial legislation.

Labour councils played a major role in preventing potential intensive and long lasting social disruption in the aftermath of fundamental economic changes in the counties. They made very important decisions impacting the employment processes in the regions, sub-regions or sectors, including priority support for underdeveloped (crisis) areas and for disadvantaged labour market groups (the Roma). Labour market boards supported job creating investments, made recommendations on the restructuring of vocational training and stressed the need for training in much demanded vocations. It is the lack of resources and the mix of the unemployed rather than bad decisions by the labour councils that often cause the maintenance of disparity between the regions (counties). Clearly, the sides of the labour market boards often engage in vigorous and constructive debates about the guidelines of using resources and on the proportions, expediency and efficiency of the various tools, and seem to have managed to reach a compromise in almost all cases.

21 After restructuring, there were over 31 percent newly delegated representatives (Tóth F. 1997, p. 162.).

Most of the councils include the delegates of industry, construction, agriculture, trade, transportation, catering, health care, education and public administration. At the same time, in some of the counties multinational companies are not represented either on the employers' or on the employees' side, even though these companies play a decisive role in the economy of the county.

The four periods in the history of labour councils

In the history of labour councils four stages can be distinguished.

1. 1991 and 1992 were the period of *setting up and learning*, when the legal provisions in effect made it possible for counties to establish interest reconciliation fora with very different structures that best suited their special situations. At that time, up to the report by the State Audit Agency in 1992, the labour councils were empowered to make concrete financial decisions, to decide upon the beneficiaries and the amount of the financial support provided to them. After that, however, labour councils could not be involved in direct allocation of financial sources but only in developing guidelines for allocation. In other words, they could set the frames for decision-making rather than making the actual decisions.²²

The State Audit Agency investigation focused on the following issues: 1) Can an autonomous (not corporate type) interest reconciliation body be empowered to make technical decisions (allocating public financial resources and funds), or can it be empowered to be directly involved in such decision-making process? 2) To what extent can the decision made by county labour councils be regarded as technical decisions at all, given that the opinions of the members of the labour council (and thus the decision itself) are inevitable based on their mission to represent and pursue the interest of their affiliates? 3) Can the technical element of the decision-making process be separated from the bargaining part, and if yes, how can this be carried out in the complex relations between county labour centres, labour councils and independent experts? 4) How and to what extent can members of labour councils be held accountable if their decisions are unlawful or wrong?

The State Audit Agency found that in the counties under investigation the labour councils acted unlawfully on several occasions as they made specific (direct) decisions on allocation of financial supports in addition to setting the general guidelines and main proportions of the allocation of the so called Employment Fund. (The Employment Fund at that time served similar purposes as the current Labour Market Fund, i.e. provided public financial resources for active labour market measures.) Besides violating the law, this practice had a negative impact on the effectiveness of active measures because it lengthened the time required for decision-making; the councils were not accountable for their decisions, neither in financial nor in technical terms; the decisions were based more on the pure interests of the three parties than on technical considerations. The State Audit Agency set the following tasks: 1) the National Labour Centre (the then headquarters of the Public Employment Service) and the labour councils should ensure that they comply with the relevant provisions of the Act IV of 1991; 2) decisions with financial implications should be documented in a standardised form (for instance in a resolution of the labour council) in order to keep track of finances and make later control possible; 3) the Ministry of Labour should issue a standardised procedural regulation on the Employment Fund (ÁSZ 1992).

²² Repealing the power of labour councils to make specific decisions outraged council members. They felt disillusioned and deceived. They regarded the modification of their decision-making competence as a serious cut of their rights. In some counties the labour council suspended activities after the decision.

2. 1993–1996: the period of stabilisation and consolidation in which the role of preparing decisions and giving opinion was, and actually still is, their most important function. Board representatives could effectively influence decisions through their direct involvement in the various experts' committees

3. 1997: controversial restructuring and reorganising of the boards, and

4. from 1998 to date: the second period of stabilisation (Tóth F 1999, 2001b).

Changes in the competences of labour market boards. The scope of competences of labour market boards has changed several times, both in terms of giving and taking away rights. The following competences of the boards, however, have not changed since the Employment Law came into force:

1. to decide on the guidelines for using the tools of the employment fund of the Labour Market Fund available for the county, and on the proportions of the various supports;

2. monitor the county level use of decentralised financial tools of the Labour Market Fund;

3. make proposals on and review the short and long term programs related to the employment in the county, and monitor implementation;

4. give their opinion on the functioning of the Public Employment Service;

5. hear the report by heads of labour centres about issues under 3 and 4;

6. have the right of preliminary review of candidates for heads of labour centres;

7. meet responsibilities specified in other legal regulations.

The list of competences specified in the Employment Law was supplemented with one function related to allocation of funding in 1997: the councils give their opinion on the drafts of grant programs financed from that part of the rehabilitation fund of the Labour Market Fund which is available for the given county. With the repealing of section (2) par 13 of the Employment Act in January 1999,²³ labour market boards lost their decisive role²⁴ in regional interest reconciliation in the area of vocation training – an important “battle field” of employment policy interest reconciliation.

Up to late 1988, according to the Employment Act and to Act on Vocational Training²⁵ which it makes a reference to, up to late 1998 labour market boards had a strong authorisation in the area of vocational training in the county: they could design the grant programs financed from the vocational training fund allocated to the county, review applications and make recommendations to the heads of labour centres on granting the supports. To exercise this authorisation, they could set up vocation training committees made up of the county (Budapest) representations of employers' and employees' organisations as well as of three representatives of local governments which maintain the vocational training schools and three representatives of regional

23 “A separate law regulates the use of that part of the vocational fund of the Labour Market Fund which is available for the county (Budapest) labour market boards. If the board exercises the rights connected to the use of the funding, the agendas concerning it shall be discussed involving the representatives of regional economic chambers.” [Section (2) par. 7 of Act CVII of 1996]

24 These changes fully reflect the changes in the concept of national administration of vocational training.

25 Act LXXXVII of 1996 on the contribution to vocational training and on supporting the improvement of the training system.

economic chambers. As a result of the amendment of the law, however, boards lost their exclusive and direct decision making rights related to the allocation of the vocational training fund. In compliance with the amendment, the newly established vocational training committees were fully independent and separate from labour market boards. While county employers' and employees' organisations could still be members of the committees, there were too few of them to play a sufficiently important role.

As provided by law,²⁶ in 2001 regional development and training committees, successors of vocational training committees, were set up and were authorised to make proposals rather than decisions. These committees, however, were on a different level (they were "regional" in the sense that they were connected to the seven statistical-administrative regions of Hungary) than county labour market boards, as the members of the committees were not organisations from the county but the regional organisations of national employers' and employees' confederations participating in the National Labour Council, (the legal predecessor of the National Interest Reconciliation Council) as well as economic chambers. The system of norms²⁷ currently in force regulates the legal institutions of regional *development and training committees*.²⁸

In 2004, the gradual loss of power was partly counterbalanced by the law²⁹ on the rules of contribution to the vocational training system coming into force in January 2004: employers can partially settle their obligatory payment to the vocational training fund by organising training for their own employees through an adult training or study contract. Should this training lead to qualifications listed in the National Register of Qualifications, employers can directly report about their costs to the labour centre and with this they are automatically absolved, to the extent of the expenditures, from the obligation to pay contribution to the fund. In case of training courses not included in the National Register of Qualifications,³⁰ the labour councils decide whether to credit the training expenditures against the compulsory direct contribution to the Vocational training fund. The difficulty with giving labour councils this function³¹ is that it requires an absolutely new form of corporate functioning of labour councils.

Requests for crediting costs of training are reviewed by labour market boards within 30 days of submission or at the next meeting at latest. In the event that the request is incomplete or includes contradicting information, a notice of correction is issued. The applicant is informed about the board's decision within 8 days. Decision making can involve an expert or site inspection at the employer. Labour market boards deny requests that do not comply with regulations and must give the reasons of denial. Procedural rules resemble the rules of the state administration procedure, which is clearly inappropriate for a body with interest reconciliation functions.

What aggravates the controversy is that legal remedy is possible by way of overruling the labour market board's decision: in case of a rejected request, the applicant may appeal at the secretariat of the National Adult Training Council

26 Act LI of 2001 on the contribution to vocational training and on supporting the improvement of the training system.

27 Act LXXXVI of 2003 on the contribution to vocational training and on supporting the improvement of the training system.

28 With their regional organisations missing, participants in these committees are basically the same interest organisations of employers and employees as in the labour councils.

29 Act LXXXVI of 2003 on the contribution to vocational training and on supporting the improvement of the training system.

30 Training courses not included in the National Register of Qualifications, which usually are short term courses (such as language courses, on the job training, communication or competence courses) fit very well the principle of life long learning. These kinds of training courses help acquire specific knowledge, skills and expertise needed at the given moment, in the given circumstances both by the employer and the worker.

31 Joint decree 3/2004. (II. 17.) of the Ministries of Education and of Employment and Labour on the criteria and rules of accounting costs of training organised for own employees against the compulsory contribution to the vocational training system.

at the Ministry of Employment and Labour. With this labour councils have become subject to a sort of control by the central state administration.

It is too early to say what could be the longer-term impact of these recent legislative changes. The new regulation related to vocational training may eventually turn out to be the beginning of a new age of corporatism; if it really will be depends on how open the social partners concerned are, to what extent they are ready to move away from autonomous reconciliation of interests towards corporatism in the field of vocational training.

Labour councils currently still have a vaguely defined interest reconciliation function in this area as according to the Act LXXVI of 1993 on Vocational training, labour councils are (formally) responsible for regional interest reconciliation in vocational training related issues. At the same time, this function is highly questionable as with their decision-making competence taken away, the majority of councils have not discussed one single vocational training related issue in recent years. Nevertheless, several “partial decisions” have been made by labour councils, which are related, though not organically, to vocational training.

In addition to competences stipulated by the Employment Act labour market boards fulfil other functions specified by legal provisions, primarily related to active tools (supports) of employment policy.

The labour councils, for example, have the right to give their opinion on the financial supports used for labour market training. The labour centres put forward their proposals on the priority training areas and the related amounts to the respective labour councils, and then, taking into account the opinion of the council, the labour centres annually announce the list of training they will financially support.

As an other active employment policy tool, labour centres provide support for transportation of groups of individuals³² to promote labour force mobility. Support is given to employers who transport groups of their own employees from their residence to the workplace and back. Localities eligible for this kind of support are identified by the labour centres in cooperation with the county (Budapest) transportation authority and the labour market board.

A provision of law gives a special authority to labour market boards over the tools of support for unemployed first job seekers.³³ One very important tool is the support to help acquire work experience. This support is available for employers who employ unskilled and unemployed first job seekers or the unemployed with skills specified by law for at least four hours a day and for at least for 360 days in an employment relation and in a job that helps the unemployed acquire adequate work experience. The list of those skills (usually the ones not demanded on the labour market) which makes the first-job-seekers eligible for support within the work experience scheme, is identified by the labour centres after due consultation with and having the opinion of

32 Government decree 39/1998. (III. 4.) on supporting the reduction of costs of transportation to the workplace and on supporting labour force recruitment.

33 Government decree 68/1996. (V. 15.) on promoting job finding by the first job seeker unemployed.

the respective labour councils and the county economic chambers. The types of training for first-job-seekers supported financially by the labour centres are identified in a similar way. Furthermore, having consulted the county economic chambers, the labour council is authorised to identify additional special criteria of eligibility for the support.

Expansion of the competence of labour market boards with Hungary's becoming a member of the EU. With EU membership, the competence of labour councils in allocating financial resources broadened considerably in 2004: labour councils also got a say in using the European Social Fund. Labour councils have given, for example, their opinion on the programs aiming at preventing and tackling unemployment launched within the Human Resources Development Operational Programs (in which labour centres submit their programs as final beneficiaries), notably within its measure 1.1. Labour councils now have a key role in monitoring the implementation of these programs.

In relation to accession, special training courses have been provided for council members, with a view to their new competences and responsibilities. Study tours to EU Member States as well as conferences with invited specialists on the EU in general, and specifically on Structural Funds have been organised several times.

Involvement of social partners in regional development

Regional development policy involves several actors who are supposed to act on the principle of partnership. This partnership first of all means that the responsibilities and institutional tools of regional development are shared by central and local governments as well as by the private sector and civil society. Act XXI of 1996 on Regional development followed the principle of partnership and intended to involve as many stakeholders into the regional development activities as possible. The Act stipulated the setting up of *county councils of regional development*, with the following composition: representatives of local governments (those of small settlements, counties and cities with country rights), representatives of economic chambers and those of the employer and trade union sides of county labour councils.³⁴ 13 of the 18 representatives of regional development councils were from the various local governments while chambers had three and social partners had two representatives.

A research on the delegates of labour market boards in county development councils (Tóth 2001a, pp. 140–151) found that “(...) the interests of alliances of local governments of small municipalities are fundamentally different from those of the rest of the representatives”; (...) “alliances of local governments of small municipalities are the dominant force and as a result they advocate their interests unscrupulously”; (...) “the interests of local governments are dangerously different from those of employers and employees”; (...) “the priority in the regional development councils were infrastructural investments,

³⁴ While, in theory, the *regional development councils*, set up in the seven statistical-administrative regions at a later stage, have also been established according to the partnership principle, representatives of social partners have not been invited to participate. The regional development councils are not discussed in this paper.

often to the detriment of job creation”; (...) “the opinion of the labour market board was disregarded, partly because of the way and mechanism of preparing decision making and partly because of proportions of votes”; (...) “the composition of regional development councils are fundamentally influenced by political considerations”. As clashes of interests were of a structural nature, it is not surprising that county councils of regional development were restructured entirely.

County development councils – without social partners. In November 1999, the two sides of labour market boards lost their membership and their right to send delegates to the county council of regional development.³⁵ Since then, the legislation tackles only rather broadly the involvement of social partners in regional development: “The county council of regional development shall fulfil its employment policy related functions in coordination with the county labour council. (...) To fulfil its responsibilities, the county council of regional development shall cooperate with the various local governments, the state administration organs involved directly and indirectly in the development activities in the county as well as with the relevant civil and professional organisations and the county labour councils.”

Although the social partner delegates of labour councils were in minority in the multi-partite county council of regional development and were unable to efficiently pursue their interests, the labour councils still regarded the amendment of the Act and their exclusion from the county development council a great loss. Members of labour councils still consider it desirable to better coordinate and institutionalise the cooperation between interest reconciliation on general economic development issues on the one hand, and on employment, labour market related issues, on the other. They also find it necessary to involve the representatives of the employer and trade union sides of labour councils as full members into the various bodies (both at county level and in the statistical-administrative regions) engaged in reconciling interests on broad economic and development matters.

Participation of social partners in development councils of micro-regions. What was lost at county level (and never granted at the level of statistical-administrative regions) was eventually given to social partners in micro-regions: they became institutionally involved in development issues. The amendment of the Act on Regional development, coming into effect in September 2004, invited social partners to the newly established *development councils of small-areas*.³⁶ These development councils were set up to coordinate development functions and tasks locally, to adopt the development concept of the given small-area, and plan common development programs involving various small-areas. The development councils of small areas, however, have assigned significantly

35 Members of the council are: chair of the county assembly, mayor(s) of city (cities) with county rights on the territory of the county, a representative of the minister, three representatives of regional development alliances of local governments in the county, the head of the county (Budapest) agricultural office and a representative of the regionally competent office of tourism.

36 Development councils of small-areas are legal entities registered with the competent regional office of the Hungarian State Treasury. The head of the public administration office of the county where they are based controls the development councils of small-areas.

different roles and responsibilities to social partners as county councils of regional development used to.

The main function of development councils is to coordinate the development ideas and priorities of local governments and their regional development alliances, and of businesses active in the given territory in order to promote the social, economic and environmental development of the given area, in accordance with the agreed development plan for the small-area. Therefore, the role of development councils goes far beyond the distributor of public resources. It also encompasses interest reconciliation and coordination: co-operation with local governments and with their regional development alliances, with state agencies operating in the small-area as well as with relevant social and professional organisations and businesses.)

The members of the councils are:

1. the mayor of each municipality of the micro-region with the right to vote;

2. one representative of each of the economic chambers active in the micro-region; one representative of the county development council; one local representative of those employer organisations that have the right to nominate delegates to the county labour councils; similarly, one local representative of those trade unions that have the right to nominate delegates to the county labour councils; one local representative of national professional organisations of craftsmen and retailers; one representative of civil organisations delegated by the forum of civil organisations; one representative of the county public administration office; and the representative of the regional administration of the Hungarian State Treasury – all of them with consultation right;

3. the representatives of those economic, social and other organisations are also invited to participate in the discussions with consultation rights which are directly affected by the decision of the development council as well as any other organisations asked to participate in a given sitting; development councils of small-areas may also regulate the participation of minority self-governments;

4. all civil organisations in the small-area registered by court have the right to participate in the development council with consultation rights that have set up an interest reconciliation forum among themselves to discuss regional development issues, and have indicated to the development councils their request to be involved.

Clearly, once again regional development has a link with county labour councils even if not quite as directly as it used to be with the county councils of regional development. The major difference relies in the fact, that members of the small-area development councils are not nominated by the respective sides of the county labour councils, but by those employer organisations and trade union confederations that have right of delegation to the county

labour councils. Thus it might occur that the local representatives of social partners in the development councils have no institutionalised connection to county labour councils.

Representatives of social partners in the small-area development councils do not have voting rights. They only possess consultation rights, similarly to all the other participants except for the mayors.

To sum up: with the subsequent modifications of the Act on Regional development, social partners have practically been ousted from most of the regional development activities. The only terrain where they can exercise their limited rights, among many other stakeholders having the same or even stronger rights, is the development councils of small-areas. For social partners, broad development issues at county level and in the statistical-administrative regions are simply out of reach.

Social partners in the monitoring committees. While social partners have played a limited (or no) role in formulating regional policy and developing various programs for economic, social and environmental developments, they have been continuously involved in monitoring the use of the European financial sources provided for the same purposes.

Social partners were invited to monitor the spending of the targeted EU funding for regional development³⁷ as early as before accession. At that time, regional development councils submitted their so-called preliminary regional development programs in line with the preliminary national development programs. To monitor and evaluate the implementation of these programs *regional monitoring committees* were set up in which the employer and workers sides of county labour councils could participate, with one representative each, having consultation rights.

This role has been maintained³⁸ after accession, though somewhat less exactly defined by legislation. Social partners are, nevertheless, involved in the various monitoring committees responsible for monitoring the implementation of the various development plans financed from the Structural Funds (such as the overall Community Support Framework, and the various operational programs, including the Human Resources Development Operational Program).

Employment pacts with the involvement of social partners

Employment pacts, traditional agreements in regional industrial relations in several old EU Member States, first appeared in Hungary in the early years of this millennium. (Just to give an indication of the Community practice: in 1997, the European Union launched or supported 89 pilot programs aiming at concluding employment pacts, financed from the European Social Fund).

An employment pact, as it is widely interpreted, is a written agreement of the actors of the regional labour market to jointly set and meet employment

37 Government decree 89/2001. (VI. 15.) on the rules of spending the regional development targeted estimate. (not in force as of 7th March 2003).

38 Government decree 124/2003. (VIII. 15.) on establishing the monitoring system of programs implemented with funding from the European Union.

goals. (The notion of pact is to be understood in the broad sense as stakeholders may include persons or organisations that in the given moment are not directly related to the labour market but are interested in meeting the goals of the pact, and are ready to work for that end.) In the frames of the pact, the partners usually start with mapping the employment situation in the given region, they explore the magnitude, the characteristics and the causes of unemployment; in order to tackle the identified difficulties and problems, they coordinate economic and human resources development ideas and priorities; they also make sure that available financial resources are efficiently spent; they implement jointly the agreed programs.

Typical partners, stakeholders of pacts are the following: local governments, the Public Employment Service and its regional offices, the county labour centres, employers in the given territory, training institutions, social partners civil organisations. Employment pacts are the best examples for implementing the partnership principle – a precondition in case of Community funding.

In practice, there is no employment pact without the involvement of the social partner concerned. Thus the recent spread of employment pacts has lead to a growing role of social partners in interest reconciliation, in regional industrial relations. Social partners also actively participate in the operative organs in charge of implementing the pacts.

The number of pacts and their coverage (not only in the geographical sense) has been growing in Hungary. The non-exhaustive list of the current employment pacts is as follows: Kemenesalja small-area employment pact; Letenye regional employment pact; Zalaszentgrót employment pact; Hungarian-Slovak cross-border employment pact; Hungarian-Austrian cross-border small-area employment pact (Lövé); Baranya employment pact.³⁹ Experience shows that employment pacts can effectively assist solving (or at least easing) employment problems, while the possibilities and roles of social partners in interest reconciliation have been increasing too. Employment pacts do not have a legislative underpinning; their distinctive feature is the voluntary cooperation of the stakeholders. The positive experience with voluntary, autonomous cooperation may reverse the trend of the past decade – when legislation and structures of regional industrial relations have kept driving social partners towards those forms of cooperation in which the corporative elements were dominant (if not exclusive).

³⁹ In June 2004, a declaration of intention for an employment pact was signed on the initiative of the Local Government Assembly and Labour Centre of county Békés; preparations for concluding an employment pact also begun in the Szeged area.

2.2 The Sectoral Level – Efforts and Trends

MÁRIA LADÓ AND FERENC TÓTH

In the Hungarian industrial relations system the middle level is so underdeveloped compared to the company and national levels that it is almost altogether missing. Too few sectoral and regional collective agreements with low coverage, weak and rudimentary dialogue between the social partners, meaningless or missing tripartite cooperation – these have long characterised the middle level of industrial relations in Hungary.⁴⁰

Efforts in the 1990s

To develop or revitalise the sectoral level of industrial relations was one of the goals of the – later aborted – attempt at a *social and economic agreement*. Similarly, it was a priority in the various reform concepts aimed at renewing industrial relations.⁴¹ In early 1996 a consensus was reached in the Interest Reconciliation Council, the national tripartite forum at that time, that collective bargaining and agreements were to be promoted at all levels, including sectoral. For that end a tripartite *ad hoc* team was set up, but ultimately it could not bring about a breakthrough.

In July 1995, a tripartite meeting was held with a special focus on sectoral collective bargaining. In the framework of the joint project of the National Association of Hungarian Trade Unions (MSZOSZ) and the Alliance of Autonomous Trade Unions (ASZSZ) launched with the assistance of the International Labour Organisation (ILO), several regional conferences were organised in 1998 and 1999 to enhance collective bargaining – most importantly at sectoral level.

These efforts shared three main features:

1. They *focused exclusively on collective bargaining and collective agreements* and neglected other possible forms of a – bipartite or tripartite – sectoral cooperation nature.⁴²
2. Most of them *failed* to have any *impact* on collective bargaining *practices*.
3. They did not identify the need to create a permanent “*institutional framework for bargaining*”.

While not much was achieved in terms of concrete results, by the last third of the 1990s the common understanding shared by the government and the social partners was that “something must be done at sectoral level”. This resolution was strengthened by Hungary’s preparations for EU membership and the pressure by the European Commission to take specific practical steps.

Requirements of the European Union

In order to interpret faithfully the requirements and expectations of the European Commission, expressed on behalf of the Member States, some comments first need be made on the terminology used in official Commission

⁴⁰ For a more comprehensive study see Ládó–Tóth (eds) (1996).

⁴¹ Ládó–Tóth (1995). Particularly about collective bargaining see MúM (1997).

⁴² For instance, consultation with the relevant line ministries; consultation in the legislative process relevant for the sector; bipartite activities that while not meeting the criteria of collective bargaining are ways for sectoral social partners to develop sectoral regulations and guidelines, such as codes of conduct.

documents. In the European Union, the term “social dialogue”⁴³ stands for the bipartite relations between social partners; occasionally the adjective “autonomous” is added to underline this understanding.

The most important area of social dialogue in this interpretation is the “sector” – both in the European Union as a whole and in most Member States.⁴⁴ Consequently, Commission documents when recommending candidate countries to enhance social dialogue evidently meant the development and reinforcement of bipartite cooperation, primarily at sectoral level. Wording later became unambiguous, especially when recommendations were also made in relation to enterprise level industrial relations.

The first reference to social dialogue was already made by the document *Hungary: Accession Partnership – 1998 (EC 1998)*, urging the “further development of active, autonomous social dialogue”. A year later, *Accession Partnership – 1999 (EC 1999a)* set it as a short term priority to “... support social partners’ capacity-building efforts to develop and implement the *acquis*, notably through bipartite social dialogue”. *Accession Partnership – 2002 (EC 2002b)* was very specific by indicating the following priority areas: “... continue to support social partners’ capacity-building efforts, in particular with a view to their future role in the development and implementation of Community employment and social policy ... Particular attention should be paid to enhancing the social partners’ capacity to conduct social dialogue ...”

The annual reports assessing Hungary’s progress towards accession have regularly covered industrial relations. For instance, the 2000 Regular Report emphasized: “Lack of effective consultations at national level could have negative effects on social dialogue, not only at European level, but also at the decentralised level (sectors, regions and enterprises). No concrete steps have been undertaken to strengthen autonomous social dialogue at these levels.” (Regular Report 2000.)

The Regular Report 2001 openly stated that “Autonomous sectoral social dialogue continues to be rather weak with a few collective agreements signed at sectoral level.” Priority tasks specified in the document included the following: “Sound developments in social dialogue should be actively promoted. ... Autonomous social dialogue, especially at sectoral level, should be promoted. Social partners should make more use of their autonomy to conclude agreements among themselves.” (Regular Report 2001.)

The Regular Report 2002 emphasised that “autonomous bipartite social dialogue needs to be reinforced at sectoral and enterprise level, and its coverage extended, both in terms of enterprises and of percentage of the labour force covered by collective agreements.” (Regular Report 2002.)⁴⁵

The few pending issues raised by the *Comprehensive monitoring report on Hungary’s preparations for membership (EC 2003)*, the last assessment before accession, included social dialogue, particularly the sectoral level: “...autonomous bipartite social dialogue needs to be improved at all levels and the number of collective agreements signed at sectoral and enterprise level increased. The social partners’ administrative capacity, primarily for entering into social dialogue at European level, is to be reinforced, too.”

The requirements of the European Union in the process of accession negotiations were not only specified by the Commission documents. The various statements of the other European institutions, especially those of the Economic and Social Committee and the European Parliament and the views of the European social partners were equally clear messages. A Report of the European Parliament (A5-0248/2000), for example emphasized that “the existence of a representative and autonomous social dialogue constitutes an indispensable element of the accession preparations”.

43 By social dialogue the European Commission, and most of the Member States, mean the process of continuous interaction between the social partners with the aim of reaching agreements on the control of certain economic and social variables falling in their competence. For details see: *Ladó* (2004).

44 For details see *Ladó* (2004), *Visser et al* (2002) and *EC* (2000a).

45 The *Regular Report* (2002) the PHARE project designed to strengthen autonomous social dialogue in a separate chapter, to be discussed later.

On the whole, the requirements of the European Union set two tasks for Hungary as regards the *sectoral level of industrial relations*:⁴⁶

- social partners have to develop and strengthen their autonomous social dialogue, with the adequate assistance of the government;
- social partners have to reinforce, similarly with the adequate support of the government, their administrative capacity so that they can meet both their domestic and European responsibilities.

The question, however, is why the European Commission, and Member States, have urged accession countries to reinforce their industrial relations and to develop first of all the sectoral level. Here some arguments will be highlighted – without discussing in detail the role of social dialogue in the European Union and the complex relation between Community and national level endeavours.

1. Social dialogue is undoubtedly part of the legal *acquis communautaire*, as there are several directives with special provisions as regards social dialogue in the Member States. The legal *acquis* take as granted the existence of social dialogue and thus assign further tasks, obligations and rights. The legal *acquis* include primarily provisions on social dialogue at the enterprise level; however, there are community norms related to other forms of industrial relations at higher levels as well.

2. At the same time, “social dialogue should not be understood purely as a component of the *acquis* but as a means for bringing this *acquis* into practical effect.” (*Quintin* 2000, p. 2.). A prerequisite to this is that Member States have well developed and structured social dialogue and industrial relations. If, for example, collective bargaining is underdeveloped, it is uncertain how those community objectives and principles will be transposed that are left to the competence of social partners by community regulations. If social dialogue has serious institutional and operational deficiencies, the *acquis* can simply not be transposed and implemented in practice.

3. Social dialogue is part of the institutional *acquis*, too. The various structures and procedures of the European social dialogue have become indispensable elements of the working of the European Union, especially in its social policy. One structure, the *sectoral dialogue committees*, has been playing a key role for the past decades. Whenever assessing the industrial relations of accession countries, the European Commission has always focussed on how much these serve the meaningful cooperation between the community level and the future Member States. While, of course, the European Commission never specified any “membership criteria” for industrial relations (such as the number or structure of institutions etc.), it did though strongly recommend a certain “alignment” and urged the development of the sectoral level, missing in most accession countries. The Commission did so on the understanding that the social partners in candidate countries could integrate more easily

⁴⁶In the accession negotiations, the European Commission set similarly specific requirements on the national (central) and enterprise (micro) level of industrial relations. See *Ladó* (2000a).

and efficiently into the complex system of European social dialogue if their national industrial relations systems were not too far removed from the values and practices of European social dialogue, or at least if they are developing in that direction.

4. The strong emphasis on social dialogue and industrial relations in the negotiation talks can also be traced back to the intention of the European Union to ensure that with enlargement nothing clogs the already halting machinery of European social dialogue. This could only be guaranteed if the social partners in accession countries had sufficient experience in the area of industrial relations and social dialogue, and were already experienced in playing those roles at home that they were supposed to undertake later at European level.

Therefore the European Commission urged the strengthening of autonomous social dialogue at sectoral level, albeit without making (indeed it was not empowered to do so) any concrete recommendation or requirement concerning the method and institutional framework.

Building structures with external assistance

It is probably impossible to tell whether sectoral dialogue committees in Hungary would have ever been formed, and if yes, when, if

- the government and the country had not been under the “Brussels pressure” described above, and
- the European Commission had not approved the project on *Strengthening autonomous social dialogue*⁴⁷ and, as a result, the sectoral level of industrial relations had not been given political attention, technical assistance and substantial funding.

Given the failures of efforts in the 1990s briefly discussed earlier, we believe that the technical and financial support from the EU was essential to the eventual making of real progress at sectoral level. The trap, however, was that in the pre-accession period only the governments (as candidate countries) could be the beneficiaries of community (PHARE) funding, as a consequence of which the project on strengthening the autonomous dialogue of sectoral social partners became formally a government project in terms of contractual obligations and the responsibility for implementation. To “offset” this, a series of guarantees were built into the management and decision making mechanism of the project: first of all the tripartite Sectoral Council was set up with the participation of representatives of the national confederations of social partners, which operated as the decision making body of the PHARE project *Strengthening autonomous social dialogue*. This solution, again, had its own trap, by providing far reaching power to national cross-sector confederations on sectoral developments.

The European Union provided technical assistance and financial support to strengthen social dialogue at sectoral level, but – contrary to widespread

⁴⁷ The content of the project was outlined by the then Economic Ministry in late autumn 2000. First, in 2000 a draft was prepared; the decision on the PHARE project *Strengthening autonomous social dialogue* was made in February 2001 (Proposal for the National Labour Council: Discussion of the draft of the PHARE project on setting up Sectoral Social Dialogue Committees and setting up an Operational Committee). The European Commission approved the project and decided to provide funding of EUR 2 million in March 2001. The pre-accession twinning partner was a Danish consortium. The covenant was signed on 20 June 2002. The original project deadline was 31 December 2003, but in July 2003 it was postponed to 31 March 2004.

misunderstanding and misinterpretation – it never required Hungary to set up sectoral dialogue committees, as such. Setting up sectoral dialogue committees was a choice to achieve the goal to strengthen dialogue between social partners at sectoral level. When the government, having consulted social partners submitted its request for PHARE assistance it also undertook the obligation to create the sectoral institutional system, and when the government eventually signed the PHARE contract, the setting up of sectoral dialogue committees became an international contractual obligation.⁴⁸

The comprehensive evaluation and the full assessment of achievements (or the lack thereof) of the project *Strengthening autonomous social dialogue* have not been yet made.⁴⁹ Our analysis also focuses only on some of the key issues. To what extent was the institution building a *copy of models* (given the role of community funding and foreign experts) or an *organic development*, i.e. a bottom-up process based on national traditions? How adequate are the *legal, organisational, financing etc. regulations* on sectoral social dialogue in the sense that they are to integrate the new sectoral structures into the existing system of industrial relations? Was a fair balance achieved between governmental responsibility and fully respecting the autonomy of social partners?

Goals and priorities

The objectives of the project have been interpreted by many and in many ways – due partly to the differences in understanding EU terminology, and partly to the different versions of translations of the relevant documents.⁵⁰ Here we will try to accurately interpret the original aim on the basis of the initial document of the project.⁵¹

Fundamentally, the project was intended to facilitate the *establishment of a functioning system of industrial relations* in the following way:

- complement the existing tripartite industrial relations structures (the formal discussions held between the government and social partners) with bipartite channels of social dialogue at sectoral level;
- the purpose of “complementing” is to address sector specific issues by those most concerned in the most appropriate way for the given issue (from consultation with the government to bipartite negotiations and collective bargaining);
- the project fiche declares that the tool of “complementing” is *sectoral committees* to be set up in all sectors where social partners jointly so request;
- *sectoral committees* will provide social partners the opportunity to prepare for participation in similar structures at European level.

The fundamental goal was to create and improve the largely missing *intermediate level* of industrial relations in Hungary. The relationship with sectoral dialogue committees of the European Union⁵² was only mentioned in the

48 This means, that if Hungary had failed to set up the sectoral dialogue committees (as many as agreed and by the deadline specified in the contract), it could have been reproved, and eventually sanctioned by the European Commission. This sanction, however, would have been due to breaching of the international contract rather than because of not meeting EU requirements or because the EU intervened in national affairs.

49 On the history of the project see for instance *Lux* (2004a), (2004b); *EMM* (2003), *PHARE* (2004). See a first attempt to give a comprehensive evaluation in *Berki* (2004).

50 In addition to analyses of the project mentioned earlier see for instance *Neumann-Tóth* (2002).

51 A standard summary project fiche. Project number HU0104-01. Interpretation of the document is made easier for the authors as they participated in its drafting and in launching the project.

52 In Hungarian see more: *Ladó* (2003a), (2004); *Borbély* (2004).

context that sector level cooperation in Hungary would help prepare sectoral social partners to participate in similar cooperation at European level and to better understand European level interrelations. The goal of the project, thus, was not to “copy” the sectoral dialogue committees that existed in the European Union.

In addition to the general (and somewhat awkwardly worded) overall aim, the project fiche identified the following objectives:

- establishment of institutionalised co-operation between the workers’ and employers’ organisations of the given sector in the framework of sectoral committees enhancing bipartite consultation at sectoral level;
- reinforcing social partners bargaining activity⁵³ at sectoral level;
- building a closer interaction with the relevant Sectoral Dialogue Committees at European level;
- enhance the administrative capacity of the government on social dialogue in order to assist the development of social dialogue;
- ensure a better linkage between tripartite consultations and autonomous sectoral social dialogue;
- ensure a better linkage between sectoral social dialogue and social dialogue at enterprise level.

The initial project document actually identified several important characteristics of the future sectoral dialogue committees, such as:

- their setting up on a voluntary basis;
- bipartite structure;
- the government’s supporting role – and no participation for the government in sectoral dialogue committees;
- the competence of the committees, i.e. consultation and bipartite negotiations (not only collective bargaining) on sectoral issues;
- focussing on domestic issues (as sectoral dialogue committees are meant to be the “training field” to prepare for participation at similar European structures).

As much as possible, the objective of the project had to be identified in quantitative terms too. First, in the project fiche, the obligation was undertaken that by the closing date of the project, the number of sectoral committees will be “around twenty”. Based on the decision of the National Labour Council, the contract eventually specified 18 sectors where committees were to be set up.⁵⁴

The project fiche as well as the international contract, however, have consciously left a number of issues open. First of all the definition of “sector”, the definition of sectoral social partners, the criteria of participation in the sectoral committees, the time schedule of establishing the sectoral committees and the legal foundation of the new structures of industrial relations and their integration in the existing legal system – these dilemmas were all

⁵³ Early documents of the project consciously mention not only collective bargaining but bargaining, i.e. negotiations in general.

⁵⁴ This is the list of sectors opting for participation in the project with the purpose of setting up their respective sectoral committees in the course of the two years of the project. The sectors are the following: 1. hotels and restaurants and tourism, 2. light industry: textile, leather and clothing, 3. electricity and energy 4. commerce, 5. agriculture, 6. food, bakery, canning, sugar and cooling industries 7. construction, 8. metallurgy, 9. water management and local public utilities, 10. postal services and telecommunication, 11. chemistry, 12. air transport, 13. railways, 14. machine industry, 15. road transport, 16. education, 17. healthcare, 18. culture and arts. See the list of currently functioning sectoral dialogue committees and their participants in the statistical appendix of the volume.

meant to be clarified by an *inspiration document*. This document, was, however, never finalised. Its role was eventually fulfilled, according to the decision of concerned parties, by a *framework agreement* signed by the tripartite Sectoral Council, on 2 July 2003.

A snapshot of achievements

“The purpose of the project was achieved, the system of social dialogue is operational, and its basic institutions have been established. As a result of this project, an organized sectoral dialogue emerged to enforce the bargaining capacity of the social partners in bi- and tripartite discussion and to increase the number of sectors involved.” – runs the evaluation in the document officially closing the project (Interim Evolution Report R/HU/SOC/04002 Final Version) The National Interest Reconciliation Council, which monitored the project implementation and delegated the members to the tripartite Sectoral Council implementing the project confirmed that “the PHARE project on strengthening autonomous social dialogue was successfully closed at the closing conference held on 27 January 2004” (*OÉT* 2004).

With the project over, however, institution building was far from being finished. It is, therefore, not easy to make a sort of “balance sheet” of achievements and tasks still to be done. In the *box* below a broad outline is given for the state of affairs in late October 2004, when the government and sectoral social partners had already signed the agreement on the conditions and rules of the operations of sectoral dialogue committees that would serve as regulators as long as relevant legislation is not in place (*Megállapodás az ágazati...,* 2004). Our assessment includes not only concrete achievements “attesting”⁵⁵ to the implementation of tasks identified in the various project documents but also indirect, yet key achievements and tasks.

The achievements in the various sectors were, of course, different. In the framework of an empirical research, three sectors were investigated in detail: commerce, light industry, and tourism and hotels and catering.⁵⁶

In all three sectors, there had been a several decades long *tradition* of cooperation between sectoral social partners, though very differently in terms of the number of social partners involved in the cooperation (and the number of “those left out”), the main orientation of the cooperation (bipartite vs. tripartite, and in the case of bipartite collective bargaining or joint actions) and the success of cooperation. Similarly, in all three sectors contacts with *sectoral social partners in the European Union* had an impact, but again differently in form and intensity. Social partners were *centralised* to different degrees in the various sectors (which was one of the reasons for selecting these sectors).

In all three sectors a sectoral dialogue committee was set up and *Table 2.1.* summarises the main characteristics at the time of the research closing (November 2004).

55 Document *FMM* (2004), 6381-1/2004.-MCKFÖO is this kind of evaluation. On the results in the first implementation phases see *Lux* (2003).

56 The research was financed by the National Employment Fund (OFA CXIII-91). See detailed research findings in *Ladó-Tóth* (2004). In addition to the findings related to the three sectors selected, this section relies also on the general lessons of the empirical investigation. On the overall situation of sectoral social dialogue in Hungary, including light industry, see also *Ladó* (2003b).

Establishment of sectoral committees in Hungary

– achievements and future tasks (state of affairs in October 2004)

Achievements and results related to the PHARE project

- Sectoral level of industrial relations received political and professional attention.
- In addition to tripartite cooperation, the autonomous and indispensable role of bipartite relations was recognised.
- Sectoral social partners have vigorously appeared (or organised in certain sectors).
- The relations between sectoral employers' organisations and sectoral trade unions strengthened (or were established in some of the sectors), and were mutually legitimised as "representatives of the sector".
- The actual state of affairs in sectoral level industrial relations was widely investigated (sectoral studies analysing the situation, comparative studies, project documents).*
- European level sectoral social dialogue and consultation was widely studied (training, study tours, translation and publication of the relevant literature)
- A framework agreement was signed on *the guidelines of the setting up and functioning of sectoral dialogue committees* (2 July 2003).
- An agreement was made *on the conditions and regulations of the functioning of sectoral dialogue committees until relevant legislation is in place* (22 September 2004).
- Altogether 29 sectoral or sub-sectoral dialogue committees were set up (by signing a declaration of intention or by agreement) and actual work was started within these institutional frameworks (up to late October 2004).
- The Sectoral Dialogue Centre was established to coordinate and facilitate the work of sectoral dialogue committees.
- The secretariats of sectoral dialogue committees were partially established.

* The papers were made widely available by the Ministry of Employment and Labour electronically on *INFO-CD – a HU 0104-010 on the PHARE program to strengthen autonomous social dialogue*. Electronically published in January 2004.

** The Council of Sectoral Dialogue Committees was set up on the autonomous initiative of a series of freshly established sectoral committees as a sort of coordinating – body facilitating the flow of information. In the final phase of the project, the Council of Sectoral Dialogue Committees worked in parallel, and heavily rivalling, with the tripartite Sectoral Council, which was originally set up to manage the project. In our view, the Council

Unsolved issues, future tasks

- To integrate the strengthened (established) sectoral level in the system of industrial relations and to fully recognise the legitimacy and role of the sectoral level;
- One though far from exclusive element of this is the legal definition of the place and role of sectoral industrial relations and the development of the relevant legal regulations on sectoral institutions and procedures;
- To decide the future role of the tripartite Sectoral Council (originally set up to manage the project) and of the Council of Sectoral Dialogue Committees** (set up on the initiative of the sectoral partners themselves in the margin of the project) and to integrate the remaining council(s) in the system of industrial relations;
- To make provisional regulations (*"Agreement on the conditions and regulations of the functioning of sectoral dialogue committees until relevant legislation is in place"*) final and issue them as legal regulations and thereby establish the legal foundations of the sectoral structures;***
- In order to improve sectoral consultation, to strengthen – in some sectors to establish – cooperation with government agencies (ministries and authorities) concerned;
- To complete the administrative background (organisational framework, human resources, financial resources etc.) that assist sectoral dialogue committees,
- To ensure the long term functioning and development of both sectoral dialogue committees and their supporting administrative background, and guarantee the necessary conditions for their operations;
- To continue the training of sectoral social partners, to support – in some sectors establish – their relations with European sectoral social partners and European sectoral dialogue committees.

of Sectoral Dialogue Committees should be integrated into the system of industrial relations as its coordinating function is needed in the long run, while the tripartite Sectoral Council has ceased to have any role since the project is over.

*** While in the system of industrial relations tripartite and bipartite structures do not necessary need a legal foundation, in the case of sectoral dialogue committees this seems to be indispensable, especially because the committees are planned to be authorised to conclude collective agreements binding automatically for the entire sector. Given the importance of this authority, legal guarantees must be ensured.

Table 2.1: Sectoral dialogue committees – their main features

	Commerce	Light industry	Tourism and catering
Level of development* of the sectoral dialogue committee at the time of the research closing (November 2004)	well developed, partly due to early establishment	the least developed of the three sectoral dialogue committees compared	while it was the last to be established, it worked promisingly from the very beginning and on the whole became fairly developed
The content of the agreement between social partners setting up the sectoral dialogue committee	an amalgamation of the overall goals of the PHARE project and of the individual objectives of social partners	a general set of goals reflecting the common ideas of social partners	the most specific and detailed agreement, close to a work programme
The role of the PHARE project in developing/strengthening sectoral cooperation	<p>"facilitator" role:</p> <ul style="list-style-type: none"> – assisted to formalise the already existing cooperation between social partners, – directed political attention to the sectoral level – social partners expected the project to provide direct financial support 	<p>"legitimising" role:</p> <ul style="list-style-type: none"> – formally established a new institution on the basis of the provisional sectoral dialogue committee set up in 2001 – increased participants both on the employers' and workers' sides – social partners expected direct and substantial financial support from the project 	<p>"complementary" role:</p> <ul style="list-style-type: none"> – in addition to concluding sectoral collective agreements, it gave an institutional framework and infra-structural background to the lobbying activities with decision makers and to consultation with the government – social partners expected direct financial support from the project
Priorities of social partners a) bipartite vs. tripartite cooperation	equally stressed; at certain stages of institution building, however, the preference was given to tripartite cooperation (possibly with a tripartite institutional structure)	equally stressed; the most important, however, was meaningful cooperation, by which primarily cooperation with the government was meant	in the new institutional framework more emphasis was placed on tripartite cooperation, given the extended sectoral collective agreement already in place; as a result, at the early stages of institution building the tripartite structure was preferred
b) within bipartite cooperation, collective bargaining and concluding collective agreement vs. "looser" cooperation	the trade unions' side stressed collective bargaining while the employers' side, due to its internal differences, preferred looser cooperation on the whole	the emphasis was on continuing looser cooperation; trade unions, however, urged for collective bargaining, the employers' side, ridden with internal conflicts and differences of opinion, had no uniform standpoint	the priority on both sides was collective bargaining and concluding collective agreement, with a special view to sub-sectoral agreements.
The influence of the relevant European Sectoral Dialogue Committee on the Hungarian sectoral body	direct but moderate; stronger on the trade unions' side than on the employers' side (partly because of the internal division of the latter)	limited; strong on trade unions' side and very weak on employers' side (due to the internal division of the employers' side and the missing membership to European sectoral organisations)	direct, the strongest in the three sectors
Level of preparation of social partners to participate in the relevant Sectoral Dialogue Committee of the European Union	most of the actors are professionally prepared	some of the actors are professionally prepared	all social partners are professionally prepared
Factors that mostly influence the future of the Sectoral Dialogue Committee (in order of importance)	<ul style="list-style-type: none"> – the relationship of the government with the sectoral dialogue committee: to what extent sectoral social partners will be involved in sectoral policy and decision making – the marked difference of interests of the various employers' organisations within the sector – strengthening the representativeness of social partners through involving on the one hand multinational commerce chains and on the other hand small and micro employers in sectoral social dialogue and consultation taking place in institutionalised frameworks 	<ul style="list-style-type: none"> – consolidation of sectoral social partners (on both sides but because of different reasons)" – managing financial difficulties – which, however, is inseparable from the problem of the fragmented nature of social partners – the relationship of the government with sectoral dialogue committees: to what extent sectoral social partners will be involved in sectoral policy and decision making and thereby how meaningful tripartite cooperation could become 	<ul style="list-style-type: none"> – the relationship of the government with sectoral dialogue committees: to what extent sectoral social partners will be involved in sectoral policy and decision making – setting up sub-sectoral committees and involving additional social partners of the sector

(Notes see on the facing page.)

* The level of development of the sectoral dialogue committees is a complex indicator used in the research to signal to what extent the sectoral institution has started to actually operate; how much is this operation adequate to meet the challenges in the sector; and whether sectoral social partners are sufficiently prepared, strong and committed to run the sectoral body in the long run. The level of development, as an indicator, was used in relative terms in the course of the research and played a role already in selecting the sectors for empirical investigation. The three sectors selected for detailed analysis were among the most developed ones of the 29 set up in the course of the project.

The Light Industry Sectoral Dialogue Committee was set up (3 April 2003) by the following social partners on the workers' side: Trade Union of Leather Workers (Bőripari Dolgozók Szakszervezete, BDSZ), Trade Union of Workers in the Clothing Industry (Ruházatiipari Dolgozók Szakszervezete, RDSZ), Trade Union of Textile Industry Workers (Textilipari Dolgozók Szakszervezete, TDSZ), Trade Union of Workers in Local Crafts and City Businesses (HVDSZ 2000), The Textile and Clothing Branch of Works Councils (Munkástanácsok Textil és Ruházati Ágazata); on the employers' side: Hungarian Association of Light Industry (Magyar Könnyűipari Szövetség, MKSZ), Federation of Hungarian Dressmakers (Magyar Ruhagyártók Egyesülése, MRE), Leather and Shoes Industrial Federation (Bőr és Cipőipari Egyesülés, BCE), Association of Hungarian Shoemakers (Magyar Cipőgyártók Egyesülete, MCE), The Textile and Clothing Industry Section of National Association of Entrepreneurs and Employers (Vállalkozók Országos Szövetsége Textil és Ruházatiipari Szekciója, VOSZ), Leather, Clothing and Textile Industry Section of National Association of Craftsmen's Corporations (Ipartestületek Országos Szövetsége, Bőr-, Ruházat-, és Textilipari Tagozata Iposz), Leather, Clothing and Textile Industry Section of Hungarian Industrial Association (Magyar Iparszövetség Bőr-, Ruházat-, és Textilipari Tagozata). At the time of setting up the sectoral dialogue committee, founding members did not question one another's legitimacy and representativeness. Most of the social partners had known each other well from cooperation in previous years, primarily from the provisional sectoral committees. Furthermore, "core" social partners of bipartite cooperation were open to involving new social partner organisations any time in representing the common interests of the sector. On both sides of the sectoral dialogue committee there are federations that were organised on the sectoral principle while others on the national confederation principle. A special organisation is HVDSZ 2000 which represents employees of sheltered workplaces and belongs to neither category.

In terms of the *level of development* of the institutional structure of the three sectors (achieved by the time of the research closing in November 2004), the sectoral dialogue committees in tourism and catering and in commerce fall into the same category.

Since its establishment, the *Sectoral Dialogue Committee in Tourism and Catering* worked systematically on areas of special interest for the sector. The committee has dealt, among others, with the issue of VAT, the law on legislative procedures and with the national strategy on developing tourism. The rules of operation, developed jointly by the sectoral social partners, were adopted in June 2004. The Sectoral Dialogue Committee in Tourism and Catering specified the bargaining topics for the sub-committees to be set up with a view to complement the sectoral collective agreement with sub-sector specific agreements. These bargaining topics, include, among others, the following:

- for the *catering sub-committee*: developing a wage tariff system, ensuring continuous employment in catering during seasonal breaks (such as school holidays) etc.,
- for the *travel agencies sub-committee*: guarantees of service quality, conditions of employment of tour guides, minimal criteria of employment in other occupations, developing a wage tariff system etc.;
- for the *hotels sub-committee*: regulating the terms and conditions of employment in the various categories, addressing the problem of continuous work and night shifts, ethical rules in the profession, wage system, bonus in function of revenues, tips etc.;
- for the *restaurants sub-committee*: issuing invoices and sanctions for violation of the relevant rules, security of employees, guarding assets, night work etc.

Similarly, the *Sectoral Dialogue Committee in Commerce* worked consistently, according to its work programme, in the following sector specific areas:

- the new forum provided an institutional framework for *negotiating wage recommendations* for the years 2003 and 2004;
- it discussed the *policy concept on the development of the commerce sector* submitted by the relevant line ministry, which was the *basis for the amendment of the law* on commercial activities;
- the length and organisation of *opening hours* was repeatedly discussed;
- a priority area was the experience related to the introduction of the EU food safety system (HACCP) and problems of interpreting the legislation;
- a decision was made to compile an *ethical code* in order to combat the frequent violation of the prohibition to serve alcohol to young people under 18.

The *Sectoral Dialogue Committee in Light Industry* could achieve less than the other two committees (within the period of our empirical investigation), primarily because of the *sectoral structure of social partners*. While several social partner organisations belong to the founders of this Sectoral Dialogue Committee, the core of the sectoral social partners, traditionally, was made up of four actors: the Hungarian Association of Light Industry (MKSZ) on the employers' side, and the Trade Union of Leather Workers (BDSZ), Trade Union of Workers in the Clothing Industry (RDSZ) and the Trade Union of Textile Industry Workers (TDSZ) on the workers' side. These are the organisations that have been cooperating for several decades and are the dominant organisations on their respective sides. Some other representatives of the sector have begun to participate intensively in sectoral cooperation only recently either because they have just established themselves, or because earlier they had worked separately due to the special needs of their membership. To establish the cooperation, however, between the old "foursome" and the

“new” organisations was not smooth. At the same time, it is the “foursome”, with their good traditions, that can be the basis of a broad sectoral consultation and social dialogue encompassing most of the sector.

It is not the number of social partner organisations on the two sides of the sectoral dialogue committees that matters but the *social partners’ commitment, interests, and readiness to cooperate*. If social partners have accepted a coordinator on their respective sides, it does not really matter any longer how many social partner organisations there are to set up the sectoral body. In the longer run, however, committees with too many actors, tend to be spread too thinly as regards both human and financial resources. Thus we expect fewer social partners to be involved in sectoral activities in the future, which could be a result of both mergers and voluntary quitting sectoral cooperation.

Merely model copying?

In the case of any institution building endeavour one central issue is whether the new institutional system is just simply a copy of an external model or an outcome of genuine development processes. The chances for a simple adoption without much consideration are especially great if the institution building involves structural changes that could fundamentally reshape the entire system of industrial relations. In our case the model copying would seem very likely, given that i) the institution building was funded by external, Community sources (PHARE assistance), ii) the European Commission urged sectoral bipartite cooperation, iii) foreign experts provided technical assistance, iv) the project was timed right before accession, and, last but not least, v) the aim of the project turned out to be establishing sectoral social dialogue committees quite similar to those in the European Union.⁵⁷

Nevertheless, in the sectors investigated empirically, the answer to the question whether merely model copying happened is positively *no*. What the PHARE project on strengthening autonomous social dialogue actually did was no more than providing assistance to social partners in the three sectors that had already cooperated more or less successfully, and channelling their activities into a general institutional structure that was meant to provide a supporting environment for autonomous dialogue. In these three sectors social partners were already determined to strengthen the sectoral level of industrial relations and develop the relevant institutional structure. Clearly, in these sectors the *grassroots initiatives* played the *decisive role* and the development of sectoral bilateral cooperation was organic.

Social partners in the three sectors did not consider European sectoral dialogue committees by any means as a model just to be copied. Nonetheless, they relied on their knowledge about, and experience with, European sectoral dialogue, and used European sectoral dialogue committees as a source of inspiration. Agreements on the establishment of Hungarian sectoral dialogue

57 It is not typical for the EU Member States that the sectoral level of industrial relations takes the form of committees. The bilateral cooperation of sectoral social partners traditionally manifests itself primarily in collective bargaining and concluding collective agreements. The relationship established through collective bargaining over the years also provides suitable grounds for social partners to initiate additional joint activities (sectoral training, research, developing and implementing joint projects, etc.) and engage in consultation with their national governments. Consequently, model copying as such can only be related to the European sectoral dialogue committees.

committees, in which the social partners themselves specified the agenda, their rights and obligations, and the way they saw their specific role in the system of industrial relations etc., reflect both the European influence (sometimes a word by word translation from European documents) and the reality in Hungary, the possibilities and desires of Hungarian sectoral social partners. For instance, the agreement on setting up the Sectoral Dialogue Committee in Tourism and Catering lists the following objectives, which correspond to the dual objectives of similar European bodies:

1. Represent the specific interests of the sector jointly
 - a) in the domestic economic environment and *vis a vis* public administration and
 - b) in relevant sectoral dialogue committee of the European Union.⁵⁸
2. Conclude sectoral agreements between social partners.

As for the PHARE project *as such*, it is more difficult to assess to what extent it was just copying a model or was a matter of organic development. As said earlier, the project provided ample room to develop solutions that best suit Hungarian circumstances. Furthermore, several key actors in the project had only inaccurate and vague knowledge of the European model to be adopted, and the Danish *twinning partner* offered primarily its own (unique) national system as best practice. Thus, the possibility to copy a model was fairly limited.

At the same time, the institution building at sectoral level was neither a truly organic development as the PHARE project was not a traditional challenge by any means. This was the first occasion in the fifteen-year history of industrial relations that the government and social partners jointly decided about a fundamental structural reform. Clearly, in Hungary there had not been any tradition of conscious institution building, which obviously limited organic development.

The institutional framework: why is legislation so late?

The newly established sectoral dialogue committees could only become genuine, sustainable institutions of industrial relations if the regulations on their mission, powers and responsibilities, organisational setting, finances, operational rules etc. are complete and thus they are institutionally embedded in the niche between the micro and the macro levels of industrial relations.

This is a serious challenge for two reasons:

- the system of *industrial relations* in Hungary is regulated only partially, or to be more accurate, only some of its elements are regulated and, too often, regulated in a controversial way; and additionally,
- in the case of sectoral institutions, the regulations to be developed should both ensure a standardised general framework for all sectoral institutions (providing equal chances and support to each of the sectors) and meet the

⁵⁸ This is the Horeca (hotel, restaurants and catering) sector at European level, whose social partners are the European Federation of Food, Agriculture and Tourism Workers (EFFAT) and the Confederation of National Associations of Hotels, Restaurants, Cafés and Similar Establishments (HOTREC).

specificities of the various sectors. The standardised general framework should respect the great variety of the sectors, which is due to such variables as ownership structure, size of undertakings, degree of centralisation, structure of social partners etc.

In principle, there was no legal obstacle to sectoral dialogue committees' getting established and functioning as no prohibiting provisions of law existed. Thus for some, there seemed to be no need to develop a special legislative framework. In order, however, to ensure that the sectoral dialogue committees established in the course of the project would exist and function also in the longer run, a "minimal regulation" turned out to be clearly necessary such as determining i) the competence and power of the new bodies, ii) the rights and the obligations of participating social partners, iii) the role of the government, iv.) the relationship and linkage between sectoral dialogue committees and the other already existing bodies of industrial relations etc.

While a consensus was reached on the most of the above issues (which was then incorporated into the tripartite framework agreement of July 2003, and later confirmed by the agreement signed by the government and sectoral representatives on 22 September 2004), the necessary amendments of legal provisions have not yet been made.

Based on the agreements mentioned, it is expected that the legislation eventually will be issued as an act, and will set in detail the functions and structure of sectoral institutions, the criteria of participation and of the representativeness of sectoral social partners and many other characteristics of the sectoral bodies. The strong adherence to detailed legislative solutions, as suggested by our research findings, can be traced back to several factors as follows:

- The most decisive factor was probably the very fact that the PHARE project was the *first consciously developed institution building endeavour* in the area of industrial relations. It was a shared desire of all parties concerned that the new institutions be created in the most careful possible way.

- Furthermore, *national confederations of social partners* managing the project understood rather quickly that they would only be able to *control* the new sectoral institutions in the long run if the legislative framework were established under their auspices of the tripartite Sectoral Council, and this framework reflects their aspirations.

- Most of the representatives of the government in the tripartite Sectoral Council were receptive of the national confederations' intention to clarify the details in the hope that *the more issues agreed on in advance, the less conflicts they would have to solve later*. The government representatives are rightly proud of having managed, for the first time since the change of the regime, to agree on the method of measuring representativeness with social partners – and to agree on a professional basis. In our view, however, the final outcome

is far too complicated and is not likely to have any real practical influence on the composition and activities of sectoral committees.

- The sectors varied widely in terms of their readiness to establish and operate the new sectoral bodies. While in the three sectors presented in some detail social partners had the theoretical foundations and practical experience to work within a framework type general regulation, in other sectors social partners were far from that capacity. This was the main reason why the tripartite Sectoral Council managing the project eventually opted for developing a regulation as detailed as possible.

- Additionally, national social partner organisations and some of the representatives of the government were *deeply distrustful of sectors and sectoral social partners*. The lack of trust clearly fuelled the propensity to legislate in detail.

The final legislation on sectoral institutions is not likely to deviate much from the framework agreement of July 2003 and the agreement of September 2004. We, however, would welcome some simplification and the careful selection of issues that really require regulation in the form of an act. The remaining issues would have been regulated at a lower level of the legislative hierarchy (such as government decree) or through the agreement of the social partners.

Autonomy – with governmental support?

No doubt, sectoral dialogue committees are meant for sectoral social partners. They are the social partners who establish the various committees, set the agenda of bipartite cooperation and agree on operational rules. Theoretically, the government's role is limited to ensuring the general regulatory framework that i) integrates the new sectoral institutions into the existing system of industrial relations and ii) provide the conditions of long term operation of sectoral dialogue committees.

While in theory the autonomy of sectoral social partners is not infringed by the government's role to regulate and ensure the general conditions of operation, the two have been a permanent source of conflicts since the PHARE project started.

To put it provocatively, at the time of implementation clashes concentrated on the ownership of the project. At that time the social partners argued in the following way: if the project was really meant for them and the project's true aim was to establish autonomous social dialogue the government should have no, or only a very limited role, in determining the content of the project and, especially, in decision making. The government argued that while the project had meant to support the autonomous activities of sectoral social partners, in compliance with requirements on PHARE social partners and in compliance with requirements on PHARE funding, the government had to sign the in-

ternational contract. Consequently, the government was liable for the implementation. This responsibility made the government actively participate and intervene on some specific occasions. While tensions around the ownership of the project lasted throughout the process of creating sectoral dialogue committees, there are no longer any similar problems. Since Hungary joined the EU the *Hungarian* social partners may directly *apply for community funding to support their autonomous activities*.

One dilemma, however, remained unsolved when the project was over: *should the government or social partners finance the operation of sectoral bodies*, and if it is the government, how much say should it have in return?

According to the social partners, financial resources necessary for the operation of the new sectoral structures should be fully (or largely) provided by the government. The financing role, however, does not authorise the government to intervene in any way in the autonomous activities of social partners or to control the sectoral bodies. In the social partners' arguments, first the government should finance the sectoral committees due to its general obligation and responsibility to support the formal institutions of industrial relations. Second, the government is supposed to be interested in the smooth functioning of sectoral bodies as it makes consultation with sectoral social partners easier, and with their bipartite and collective agreements, social partners play an important role in regulating the sectors. Third, if in any area, it is financing where the European model should be followed: the European Commission has a separate budget line for financing the operation of European sectoral dialogue committees and their secretarial background.

Given the financial situation of sectoral social partners, it seems reasonable that the government should support the new committees – runs the government argument. This support, however, cannot be a blank cheque: public funding can only be used with strict criteria and to meet previously set objectives, including that only sectoral dialogue committees meeting the jointly agreed general criteria of structure and operation can receive any funding from the government.

The issue of financing sectoral dialogue committees, however, cannot be separated from a broader dilemma: the *public financing* of the activities of social partners and of bipartite and tripartite institutions of industrial relations. We believe that a fair, transparent and stable financing mechanism should be developed which is targeted on the institution (and not social partner organisations). As a first step, the effectiveness of the current public funding practice should be reviewed. The questions are numerous: in what way are sectoral social partners currently given governmental financial assistance? To what extent do supports “get stuck” at the level of national confederation? What can be done to use the resources more effectively and efficiently and in a way that produces lasting results? How much is the current state support system

transparent? How can the use of public resources be controlled without intervening in the “internal affairs” of social partners?

The *future* of sectoral dialogue committees, paradoxically, depends mostly on the government, and for two reasons. First, social partners’ administrative capacity is not yet developed enough to maintain and run the new institutions without external assistance. The obvious signs of their weakness in terms of administrative capacity are as follows: sectoral social partner organisations have only a symbolic full time staff (if at all), the poor infrastructure, the scarce financial resources (in some cases scarcity is so great that it is an impediment to every day functioning), and the too few representatives who can be involved in sectoral social dialogue and consultation and whose knowledge and experience in professional areas is adequate (see for details Neumann and Tóth in 1.1 and 1.2 *In Focus*). Second, formal structures can only bring about a real improvement in the quality of industrial relations if the relation between the new bodies and the government is well established and strengthened; if meaningful consultation takes place through which sectoral social partners can be involved in sectoral policy and decision making. As there has always been bipartite cooperation – regular or only on an occasional basis – between sectoral social partners, for them institution building means the *integration* of their collective agreements and other type of agreements and their consultation channels *into the overall governance, or in other words, into the general policy and decision making processes and structures*.

It would be a serious setback of the development of industrial relations in Hungary if the recent sectoral institution building efforts were to abort just as the attempts did in the 1990s. Every responsible governmental decision maker should understand that without a carefully developed legislative basis and adequate financial support only a few of the newly established sectoral dialogue committees would be able to survive in the long run.

2.3 Industrial Relations in the Public Sector

ERZSÉBET BERKI

The development of institutions of consultation

The players and institutions of industrial relations changed substantially during the years of the post-socialist transition. The majority of the trade unions in the public services left the trade union confederations encompassing the business and the public sector and moved into two confederations – the Forum for the Co-operation of Trade Unions (SZEF) and the Assembly of Intellectuals' Trade Unions (ÉSZT) – whilst smaller organisations kept their original links and joined the MSZOSZ (the former SZOT) or some new confederation.

The Act on the legal status of civil servants (Ktv.) and public servants (Kjt.) passed in 1992 and following acts⁵⁹ separated the employment status of civil and public servants from the general rules of employment and opened the way for a special industrial relations system.⁶⁰ The rules of industrial relations within public service and the rights of employees were differentiated according to whether they were exercising (Ktv.), or subject to (Kjt.) state power. *Table 2.2.*

Table 2.2: Industrial relations in the public sector

Institutions	Labour relation	Public servants (Kjt.)	Civil servants (Ktv.)
Trade union	yes	yes	yes
Workplace collective agreement	yes	yes	no
Sectoral consultative forum	yes	yes	divided
Sectoral collective agreement	yes	yes*	no
Participation in macro-level consultation	yes	yes	yes
Partner in macro-level agreement	possible	possible	possible
Right to strike	yes	yes	special
Participation	yes	yes	no

* It has been legally possible since the amendment of Kjt. in 2004.

It is a general tendency that the more the principle of free agreement prevails, legislation guarantees more complex and effective industrial relations institutions which serve the protection of employees based upon collective rights. In the case of civil servants the protection does not come about through industrial relations based on collective rights but with the help of other guarantee-rules relating to employment, wages and other benefits.

The formation of the social dialogue system from the end of the 80's can be traced back to the economic transformation linked to the political regime change and the creation of a market economy based on private property. The first, separate consultative institution of public service was the Interest Reconciliation Council of Budgetary Institutions (KIMÉT) established in No-

59 I.e. the Act on the status of professionals of the police and assimilated agencies and the Act on the status of professional soldiers.

60 The Parliament has passed 10 acts since the "regime change" related to the status of different groups of public service. We here deal only with public and civil servants.

vember 1989 which operated until October 1990⁶¹ and was replaced by the Reconciliation Committee of Budgetary Institutions (KIÉB) operating in the framework of the Interest Reconciliation Council (ÉT). The operation of ÉT helped the trade unions of budgetary areas to protect employee interests in the whole sector. The Committee became autonomous after the amendment of the ÉT statutes in September 1991, and again from September 1992 when Kjt. entered into force operating until 2000 under the name of the Interest Reconciliation Council of Budgetary Institutions (KIÉT) (KIÉT 1995).

KIÉT was the most important forum of the national level interest reconciliation of public servants. Questions specifically concerning public servants or rather the whole public sector were handled by KIÉT, while more general questions were arranged by ÉT (Berki 1997).

Besides employee and governmental representatives the forum included the associations of local governments and representatives of the institutions as employers; however, this latter side did not have the right to vote.⁶² During its seven years of operation KIÉT concentrated on the questions concerning public servants, and rarely dealt with issues related to the labour relations of civil servants and employees of “professional” status. One third of the items on the agenda of plenary sessions dealt with salaries and the system of classification in which fields KIÉT concluded 12 agreements.⁶³

As a result of the breaking-up of public sector employment status, the Forum for the Conciliation of Interest of Public Servants (KÉF 1993) was established in July 1993. KÉF was a four-sided organisation as well, its stable governmental, trade union and local government groups were fully authorised to conduct negotiation. The fourth group composed of the Hungarian Chamber of Public Administration (later the Body of Public Administration) and the National Union of Chief Municipal Officers, had only consultative rights. KÉF was empowered with the right of consultation, opinion and recommendation, while its decision making power was limited to internal procedural matters.

Besides these two national fora every ministry operated fora or lower level departmental fora where employer and employee representatives and – in some cases – NGO organisations worked. Two basic types of forum were formed at the ministry level:⁶⁴

- The bipartite interest reconciliation council in which trade unions had discussions and consultations with the leaders of the ministry. These forums endeavoured to make agreements mainly in connection with salaries and working conditions (for instance the Council for Reconciliation of Interest of Home Affairs (BÉT) and the Council for Reconciliation of Interest of the Hungarian Army (HOVÉT));

- The multilateral interest reconciliation forum including NGOs which discussed, in addition to questions concerning working conditions, profes-

61 The Governmental decree No.: 3240/1990 on 12 August 1992 established the Interest Reconciliation Council which accepted the procedures regulating its operation on 31 August 1990 and the statutes in September 1990.

62 The presence of these organisations can be regarded as the organisation of institutional employers (for instance, The Hungarian Rectors Conference, the Hungarian College Directors' Conference) in KIÉT which, however, did not cover budgetary institutions and during the transformation of the system they got out of high level interest reconciliation.

63 Sessions are registered by the ministerial department operating the KIÉT secretariat (it is the wage policy department of FMM at the moment).

64 For more details see Ladó-Tóth (1996).

sional questions as well (for instance the Council for the Reconciliation of Interests in Public Education or the Social Council).

There was no hierarchy among these fora, nevertheless, there were competency debates when questions concerning certain groups of employees were on the agenda. Notwithstanding the lack of hierarchy, professional problems which could not be solved sooner or later reached the KIÉT level.⁶⁵

The operation of the system was characterised by the endeavour to agree. The agreements were rather *gentlemen's agreements* than collective agreements with no binding power or legal enforcement possibilities. The agreements – initiated by the trade union or the governmental side – dealt with the increase of salaries and with classification systems. Trade unions strove for the situation whereby the agreements should include the necessary legislative provision changes in order that enforcement be guaranteed. Hence the basic significance of the agreements was different for each side. Trade unions concentrated on reaching agreement on salary increases, local governments on covering salary increases from targeted government resources and the government on the guarantee of peaceful labour relations.

The government reorganised the system of interest reconciliation and created new fora starting in 1999. In the system of social dialogue – operated between 1999–2002 – the role of consultation was emphasized because the government took decision making completely under its own authority, while social partners demanded tools to enforce their own interests. KIÉT was replaced by the National Labour Council of Public Servants (KOMT) in October 2001, with the objectives of consultation, mutual information, interest reconciliation, recommendations, and agreements. The members of KOMT are the assigned representatives of the government (the former Ministry of Employment and Labour, now the Ministry of Economy the Ministry of Finance, the Prime Minister's Office, the Ministry of Interior and the delegates of the sectoral ministries concerned), national trade union associations representing public servants, covering several sectoral and professional trade unions, trade union confederations (altogether 11 organisations) and the negotiating group of national interest representation organisations of the local governments. The KOMT and its constituting parties have the right of information, opinion, recommendation and decision.

As a result of the amendment of Ktv. of 2001 two fora replaced the Forum for the Conciliation of Interests of Civil Servants i.e. the Interest Reconciliation Council of Civil Servants (KÉT) and the National Interest Reconciliation Council of Civil Servants of Local Governments (OÖKÉT) which separated the consultations at the central and the local government level. The operation of this system was laden by inconsistency. Without discussions covering the entire public sector, chances to conclude agreements were reduced. Accordingly, the system enabled the government to take autonomous deci-

⁶⁵ *Ladó-Tóth* (1996) includes the thorough analysis of the system.

sions after simply listening social partner opinions. Negotiations set outside the consultation system in the form of direct negotiations with the SZEF, however, could not have been avoided. Nevertheless, consultation proved to be more efficient at sectoral levels than it was the case earlier, albeit it was only suitable for solving problems of secondary importance.

The objective of the new government in 2002 was the establishment of a system of uniform public sector employment status and the creation of a consultation forum dealing with questions covering the entire public sector and competent to consult with the government regarding questions of standardised employment relations. In accordance with these objectives the National Council for the Reconciliation of Interests in Public Services (OKÉT) was established which is nowadays the highest forum for interest reconciliation in the whole public sector. OKÉT is a tripartite forum in which the representatives of government, the biggest trade union associations and local governments participate. The purpose of OKÉT is to create an institutional framework to conclude agreements covering all public sector employees.

The operation of these fora of interest reconciliation was/is characterised by the predominance of consultation. The substance of it is that the government asks the opinion of its partners in questions which concern the whole or a part of the public sector. However, the nature, intensity and contents of consultation always depended on the political-ideological disposition of the government in power and the state of the actual budget. Consequently, the number of sessions, the contents of the agenda and the number of agreements were different from period to period during the one and a half decade under examination.

Table 2.3: The system of macro level and sectoral consultative fora in the public sector

Name	Parties	Employment status
National Council for the Reconciliation of Interests in Public Services (OKÉT)	Government, national, trade union confederations and trade union federations, local government associations	public servants
Interest Reconciliation Council of Civil Servants (KÉT)	Government, national, trade union confederations and trade union federations, national association of chief municipal officers, association of chief urban officers, national body of public administration	civil servants
National Interest Reconciliation Council of Civil Servants of Local Governments (OÖKÉT)	Government, national, trade union confederations and trade union federations, national association of chief municipal officers, association of chief urban officers, national body of public administration	civil servants
National Labour Committee of Civil Servants (KOMT)	Government, national, trade union confederations and trade union federations, local government associations	civil servants
Interdepartmental Reconciliation Forum of Military Organisations (RSZTÉF)	Government, national, trade unions	professional service

Notwithstanding, the yearly conclusion of wage agreements became the practice at KIÉT and OKÉT level. After 2002 following the 50 percent increase of public servant salaries, the 6 percent salary increase agreed upon was held off for one year and could be materialised only through repeated governmental intervention.

The forum system in public service became consistent by the end of 2002 so that questions referring to the entire public sector could be consulted in a standardised way and the fora in operation became suitable also for discussions of specific questions.

Collective agreements of public servants

Rules of collective agreement are regulated by the Labour Code of 1992 (Mt.) and the Act on public servants (Kjt.). In accordance with the whole set of the (ten previously mentioned) acts only employees covered by Kjt. and Mt. can conclude workplace collective agreements. Higher level collective agreements concluded at sectoral and macro-level have been discussed above.

The amendments of the Mt. regarding collective agreements targeted the extension negotiations and agreements. The system changed again as a result of the Kjt. amendment of December 2004. There are two basic features of the transformation: 1. Until the end of 2008 a dual system will exist as concerns representativeness; on the one hand, representativeness based on the results of Public Servants' Councils' elections, on the other hand, it should be measured in terms of union membership; 2. The way is open to conclude sectoral collective agreements, consequently, the new 12/A § of Kjt. re-regulated the right of trade unions to conclude collective agreements based on, primarily, representativeness and, secondly, on membership. These rules are shown in *Table 2.4*.

The basic problems in concluding collective agreements are the division of employers' functions and the structure of finance. Consequently, it should be clarified during collective bargaining that questions to be laid down in the agreement can only be settled partially within the institution because as a result of the division of the employers' function the workplace director is not a competent negotiating partner. The practice that the director of the budgetary institution can not make a collective agreement individually but with the approval of the local government pushes the problems one level upwards and does not help at all to solve the problems of sectoral collective agreements.

Kjt. allows collective agreements with employer's interest representation organisations as well. There is no such employer's interest representation organisation in the public sector at present. However, some so-called multi-employer collective agreements have been concluded in the past few years under the scope of Kjt, with the application of the rules of Mt.

Table 2.4: The relationship between the right to conclude collective agreements and representativeness

Cases	Contracting party on trade union side	The terms of agreement conclusion	In what cases?
1.	One trade union, on the basis of membership	If there is one trade union at the employer and the number of members reaches 25 per cent of public servants	
2.	More trade unions, on the basis of membership	If there are more trade unions at the employer and the number of members reaches 25 per cent of public servants	Only if there is mutual consent between trade unions
3.	More trade unions, on the basis of representativeness	If there are more trade unions at the employer and the number of members of representative ones reaches 25 per cent of public servants	In the event where if on the basis of 2. due to the lack of mutual consent the collective agreement can not be concluded
4.	One representative trade union, on the basis of membership	However, there are more trade unions at the employer but only one concludes a collective agreement provided the trade union in question is representative and the number of members reaches 50 per cent of public servants	In that event if on the basis of 3. due to the lack of mutual consent of the representative trade unions the collective agreement can not be concluded
5.	One or more trade unions, on the basis of consent	Collective agreement concluded by one or more trade unions provided the majority of public servants agrees to it (at least half of the public servants should participate in the vote, and half of the voters vote for the collective agreement)	In that event if on the basis of 1. and 4. the conclusion of collective agreement is not possible

Table 2.5. shows the practice of collective agreements made under the scope of Kjt. *Nota bene* less than half of the institutions employing public servants engage more than thirty people where there is possibly a trade union in operation able to conclude a collective agreement.

Table 2.5: Number of collective agreements in force in budgetary institutions, 1998–2004

Year	Number of collective agreements	Number of employees covered, thousand	Coverage, per cent
“One” employer” collective agreements			
1998	2015	257,0	42
1999	2084	274,0	44
2000	2079	272,0	45
2001	2077	268,0	44
2002	2019	251,8	41
2003	2026	251,3	37
2004	2020	250,5	37
“Multi-employer” collective agreements			
1998	7	2,5	32
1999	11	2,2	36
2000	12	2,4	39
2001	10	2,1	34
2002	9	2,1	34
2003	9	2,1	30
2004	10	2,1	30

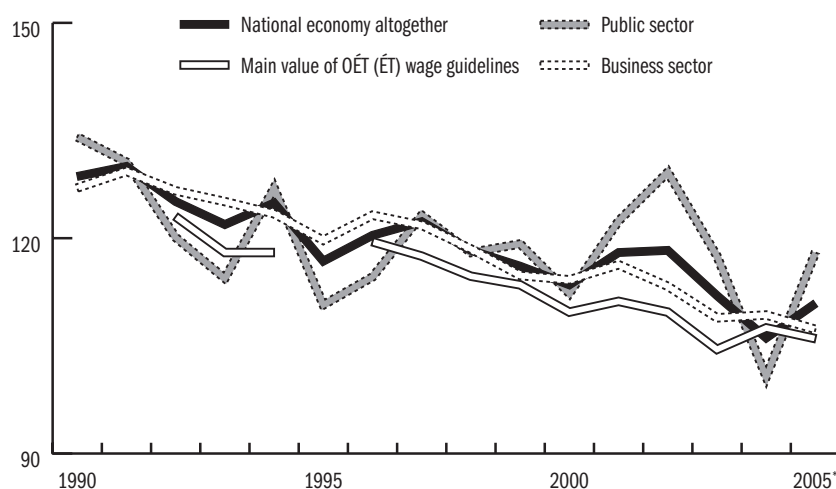
Source: FMM registration database covering all public servants.

According to the registration database of collective agreements there are collective agreements in 15–20 percent of institutions employing public servants under the scope of which 40 percent of public servants work. The number of so-called multi-employer collective agreements is negligible. Since July 2001 (the amendment of Kjt) no separate data have been collected concerning the concluded collective agreements which have been rearranged from the scope of Kjt to Mt.

Regardless of the high number of collective agreements salaries in the public sector are primarily determined by the macro-level agreements concluded in OÉT, KIÉT and later OKÉT and not by appropriate collective agreements. The narrow budgetary resources are responsible for this situation. In the case of public servants salaries can not be lower than prescribed in the Act, however, as a result of almost continuous scarce resources, the average basic salary never differs substantially from this lower limit. As for the civil servants their rate of pay is determined according to the respective Act.

Salaries have been fluctuating over the last decade in the public sector; in years of successful agreements salary increases followed at least the rate of inflation or rather the rate of wage rises in the business sector following macro-level wage guidelines agreed upon in ÉT (in OÉT) (Chart 2.1.)

Figure 2.1: The increase of gross average wages 1990–2005
(previous year = 100 per cent)



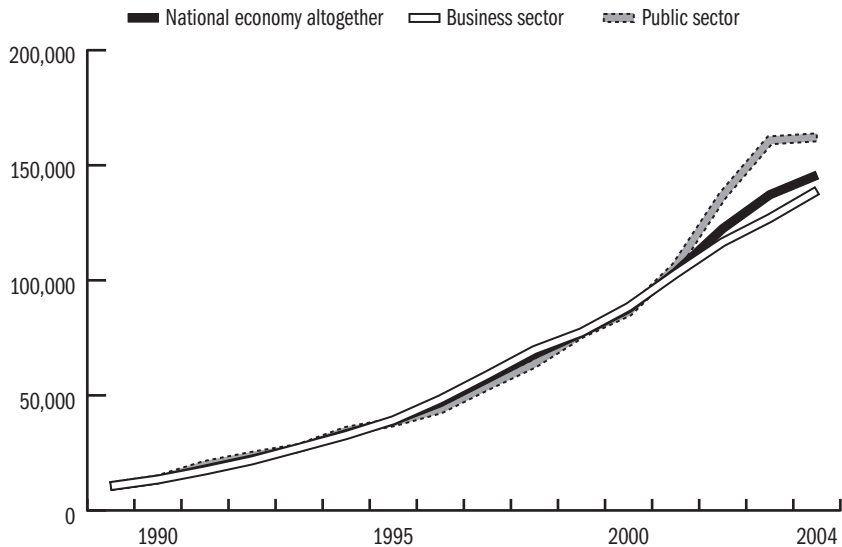
* First 6 months

Source: KSH, FMM.

In 2002 the government increased public servants' salary rates by 50 per cent in order to close the gap compared to wages in the business sector. The central government enforced the increase despite the protests of local governments only partially compensated for the additional expenditure. As a result of the

50 per cent increase the gross nominal average wage in the public sector exceeded the average wage level of the business sector in 2002. Chart 2.2)

Figure 2.2: Gross average wage HUF/employee/month



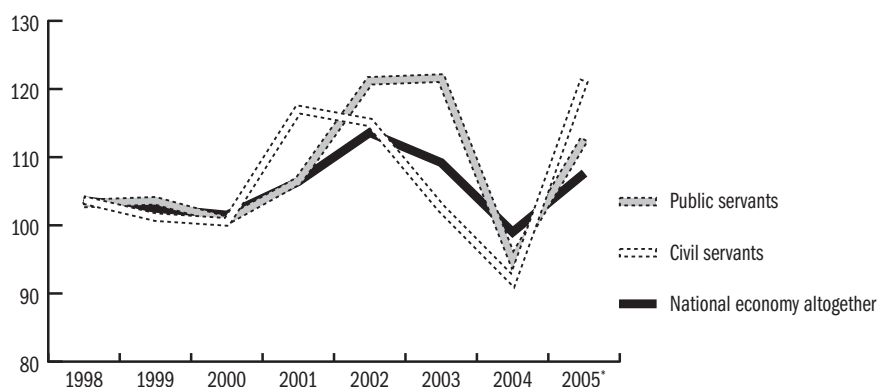
Remark: Data include between 1989–1993 enterprises with more than 20 employees, between 1994–1998 with more than 10 employees, from 1999 with more than 4 employees, furthermore, regardless of the number of employees in budgetary and social security institutions and non-profit organisations.

Source: KSH.

Nevertheless, structural differences call for a refined comparison. According to the calculation made by FMM yearly, based on the database of the Employment Office, salaries at comparable classification levels fell behind the wages of the business sector; again, in 2004 the lag was 17 per cent on average, which means a 20 percent betterment taking the 35 per cent “nadir” in 1998 into consideration. The lag in the case of civil servants is 1.8 per cent, in the case of public servants is 21.5 per cent and the wage advantage of judges and prosecutors is 36.3 per cent against comparably classified employees in the business sector (*FMM* 2005).

Inside the public sector civil servants’ wages increased faster on average since the “regime change”. Nonetheless, KSH has been collecting these data separately only since 1998, therefore, the tendency cannot be demonstrated using its data. Because of the salient wage increase of public servants in 2002 and 2003, the net real wage per capita of public servants increased faster in these two years than that of civil servants and than the average of the national economy (*Chart 2.3*)

Figure 2.3: The increase of net average real wages (previous year = 100)



Source: KSH.

Interest representation at workplace level

It is difficult to demonstrate the presence of employers' interest representations in areas which belong to the public sector (administration, public services and law enforcement), conclusions can only be drawn from the results of public servant council elections in 2004 and the number of collective agreements and collective disputes.

As discussed above, the election of public servant councils will play a role as representativeness criteria until 2008. The following chart (*Chart 2.6*) contains the aggregate results of public servant council elections in 2004.

Table 2.6: Distribution of votes in the 2004 election of public servant councils

Name of confederation	Number of votes	Distribution of votes
Forum for the Co-operation of Trade Unions (SZEF)	106,582	51.78
Confederation of Unions of Intellectuals(ÉSZT) – National Trade and Waterworks Employees' Union(VIOSZ)	13,095	6.36
Liga Trade Unions	5,800	2.82
National Association of Hungarian Trade Unions (MSZOSZ)	5,720	2.78
Trade Union Association of Military and Police Employees (FRDÉSZ)	1,492	0.72
National Federation of Workers' Councils (MOSZ)	494	0.24
Democratic League of Independent Trade Unions	5	0.00
Non trade union candidates	68,957	33.50
Small trade unions	3,678	1.79
Altogether	205,823	100.00

Source: Summary of public servant council elections of 2004, 13 April, 2005. FMM.

The fact that 66.5 per cent were trade union candidates reflects high trade union density in the public sector. However, one should consider that according to the rules the right to conclude a collective agreement and participation in

the interest reconciliation are linked to election results, which explains why trade union activity is concentrated at election times. The workplace activity of trade unions in places where civil servants work – due to the lack of the right to conclude collective agreements – is less intensive. The measurement of representativeness in police and defence forces is based on membership figures which reflect a continuous increase since the “regime change”⁶⁶ stabilising the participation and activity of these organisations at consultative fora.

According to a representative 2004 KSH survey 52 per cent of employees working in the administration, defence and social security segment of the public sector affirmed the workplace presence of unions, this percentage was 61 in the case of employees working in education and 57 per cent in public health and social care.⁶⁷ Positive answers to the question of whether the employees in question were members of a trade union were 26.1 per cent, 29.4 per cent and 26.3 per cent respectively. Employees who had workplace collective agreements were asked whether the agreement had any effect on wages and working conditions. 57.1%, 57.3 % and 59.5% thought that the agreement influenced their wages; furthermore, 58.2%, 58.0% and 61.1 % of them assumed that working conditions were influenced by the collective agreement (*KSH* 2005, pp. 38, 43 and 54).⁶⁸ We can conclude that the level of organisation is not too high (however, neither can it be considered too low by international comparison) but if there is a collective agreement then its regulating power is considerable. Furthermore, the impact of a collective agreement on working conditions is greater than on wages and salaries.

Industrial disputes and their settlement

The Labour Code of 1992 re-regulated industrial disputes and their settlement. Consequently, Hungarian labour law is only familiar with individual and collective labour disputes, regulation with regards to individual disputes is essentially the same in the public and the business sector, however there are remarkable differences in the case of collective disputes (Berki–Nacsa 2000). There is further differentiation in the segments of the public sector tied to the regulation of collective negotiations concerning interest disputes: the law cannot regulate the settlement of interest disputes where no collective negotiation is possible. In these questions the general regulations are in force, however, their application is sometimes difficult.

Service provisions for professionals in the police, military and assimilated segments apply three legal institutes for the settlement of legal disputes: request, complaint and service legal dispute⁶⁹ whilst in the other segments of the public sector basically a juridical proceeding solves legal disputes. An agreement made at the Forum for the Conciliation of Interest of Civil Servants (*KÉF*) is guiding the settlement of interest disputes in their case (*Megállapodás a kormány... 1994*). With the conclusion of this agreement the parties

66 Trade unions were excluded from this segment before the “regime change”, consequently, their presence is new for military and law enforcement employers. The increase in membership reflects the “service union” model orientation of these unions.

67 These are the sectors where the majority of public servants work.

68 Proportions set against the total number of employees, however, are smaller, i.e. half, one-third of the above listed since there were collective agreements – in the demonstrated public servant sectors – at 32.5, 43.5 and 40.1 per cent of employees questioned. (See László Neumann’s *Chart 3.1* in chapter 3.1).

69 For more details see the Act No.: XCV./2001 (Hjt) on the legal status of professional and contracted soldiers of Hungarian Defence Forces and Act No.: XLIII/1996 (Hszt.) on the service status of professional soldiers of armed organisations. The most important improvement in this area compared to the pre “regime change” era is that a service legal dispute is handled as a regular labour related legal dispute and not as a law enforcement case. Ktv. and acts mentioned here do not deal with collective disputes.

concerned met the requirements of the so-called Strike Act (Sztv) (1989/VII.). and mutually accept that disputes have to be settled by negotiation, furthermore, it regulates the use of the right to strike (*Berki* 2000).

Public servant interest disputes do not only discuss questions falling into the competency of one employer but sectoral or national ones as well. Sztv. prescribes: “If the employer concerned in a strike claim cannot be identified then the government shall appoint in 5 days its representative who participates in the reconciliation procedure. In the case of a strike concerning more than one employer, employers are obliged to appoint their representative upon request.” Consequently, if the employer is not a (legal) person and, furthermore, there is no legal compulsion for employers to participate in the collective dispute then such a committee is formed which functions as the employer in strike negotiations.

Sztv. 4. § (2) contains the following: “Employees of an employer assuming basic public services – especially public transportation, telecommunication, electricity, water, gas and other public utilities – can exercise the right to strike providing that it shall not limit sufficient service. The degree and condition of sufficient service should be agreed during the negotiation prior to strike”. Parties – if possible – should agree upon the degree of sufficient service, however a strike is legal without this agreement. Sztv 3. § (2) and (3) forbids a strike at “judiciary organs, armed forces, armed bodies, civil national security services.” This creates a limitation by which the law deprived some groups of employees of the use of strike rights regardless of their employment status in order that the basic functions of state power be sustained.

In the case of public service disputes – in accordance with the rules – mediation (without any limitations, according to the will of the parties concerned) and arbitration (in cases prescribed by the law) are also possible. Registered data⁷⁰ show a tendency for the increase of public servants’ actions whilst the number of actions of civil servants stagnate at a low level. Another feature of organised actions (Charts 2.5 and 2.6) of public servants is that there are only a few actions leading to strikes – demonstrations and petitions are more typical. This is, primarily, because of the difficulty of organising a legal strike and secondly because a large population of service users is affected.

Nonetheless, actions “softer” than a strike bring about lower effectiveness in the settlement of disputes, and the demands of those initiating the action are much less fulfilled.

⁷⁰ The source of the data is the research of the author made between 1998–2000 with the support of OTKA and OFA. The research has not yet been concluded, data are based on the continuous monitoring of the national press. The data processing of actions after 1999 follows the same structure as earlier.

Figure 2.4: The number of strikes and other actions in different segments of the public sector (1989–2004)

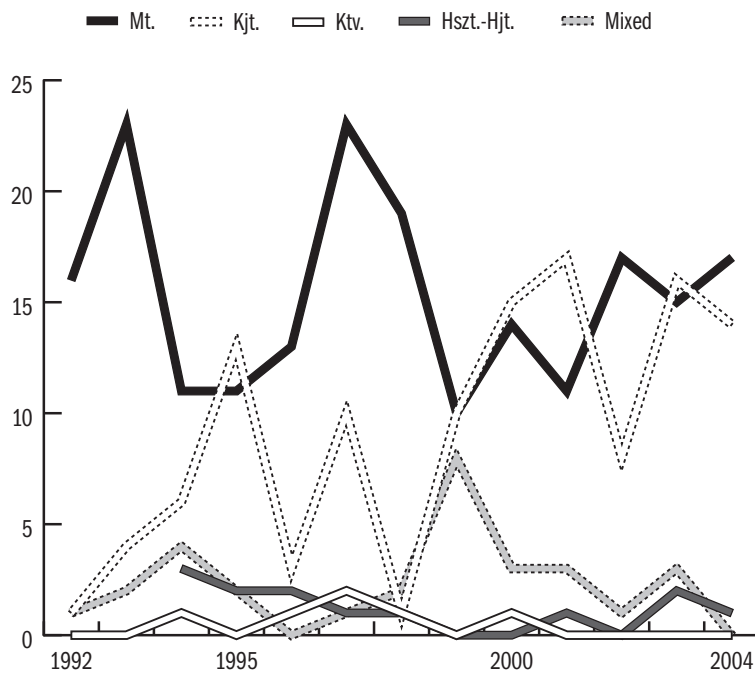
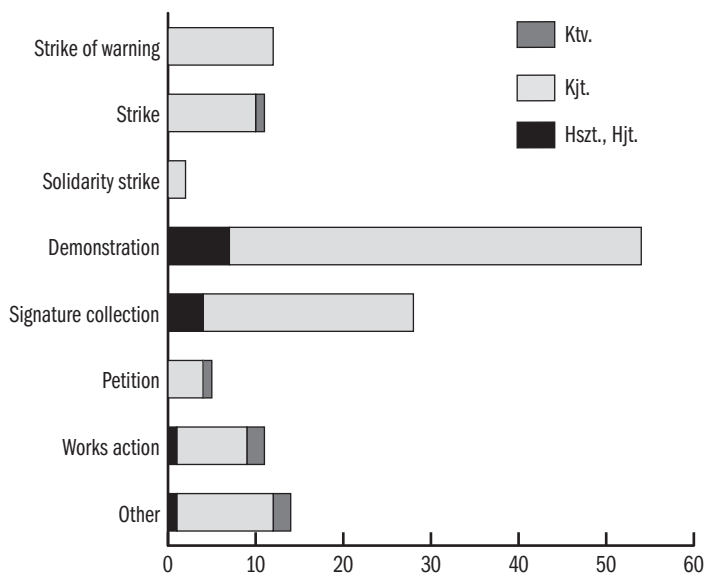


Figure 2.5: Type of action in different segments of the public sector (1989–2004)



*

The industrial relations of the public sector can, on the whole, be considered well-organised. Institutions of consultation and negotiation are well developed. An important feature is the large number of agreements substituting upper-level collective agreements. It is also important for the development of industrial relations that the representativeness of trade unions is measured by membership. Notwithstanding the fact that there are relatively a lot of local collective agreements, salaries are primarily determined by higher-level agreements concluded in OÉT, KIÉT and OKÉT. The reason for this is that it is even more difficult to conclude sectoral collective agreements here than in the business sector. The contradiction between the regulating power and number of collective agreements can be solved in the case of sectoral collective agreements, furthermore, sectoral collective agreements can also solve the problem that salaries of comparable employees are different depending on the local budgetary resources of local governments. Employer competency problems limit the formation of the system of sectoral dialogue committees and have a negative impact on interest reconciliation at sectoral level and also, on the settlement of collective disputes.

3. COLLECTIVE BARGAINING IN HUNGARY

3.1 Collective Agreements – Still Decentralised, with Shrinking Coverage

LÁSZLÓ NEUMANN

In developed Western market economies, traditionally the institutionalised way for employers and employees to agree on wages, working hours, terms and conditions of employment has been collective bargaining between trade unions and employer(s). In Hungary collective agreements have been concluded at almost all workplaces since 1968, but under state socialism it was much more or less an implementation manual of the Labour Code, tailored to local conditions. As a matter of fact, independent actors missing, collective bargaining did not really take place. Although after the regime change unionisation shrank and the share of employees covered by collective agreements dramatically decreased, the Labour Code of 1992 assumed collective agreements to regulate the employer – employee relations as well as the framework of employment terms and conditions. In contrast to continental Western European countries, where the main scene of collective bargaining has traditionally been the sectoral level, in Hungary, similarly to Anglo-Saxon and to the majority of post-socialist countries, agreements are typically concluded at the company level (*Ladó–Tóth* 1996; *Tóth* 1997b; *Ladó* 2002; *Carley* 2004). This difference is conspicuous even if historical Western European structures sometimes appear obsolete in the light of the recent state of affairs. Over the past decade all researchers have pointed out the “decentralisation” of collective bargaining (i.e. company or plant agreements disregard sectoral trade union achievements) and the “individualisation” of wage bargaining, meaning that informal/individual bargaining is spreading next to, or to the detriment of, collective agreements (*Bispinck* 1998). There are widely accepted powerful arguments in favour of decentralisation too: only agreements made at company or even plant level can adequately respond to the current financial situation, technology and work organisation of the given firm as well as the local labour market relations and the special needs of employees.

Using the most recent statistical data available, this chapter will discuss collective bargaining in Hungary today: the scope of collective agreements,

the various levels of institutionalised bargaining, issues regulated in collective agreements. The legal and institutional background⁷¹ of bargaining will only be briefly touched upon but will serve as a methodological background, a kind of source criticism to interpret the Tables in the Statistical Appendix.

Penetration of collective agreements

Methodological introduction. Basically, there are two sources of information about the coverage of collective bargaining.

1. In several EU member countries, collective agreements must be registered with some state organisation. The primary purpose of registration is to provide an administrative backup for the government to extend collective agreements (i.e. make them mandatory for all employers in the sector). As registration is the tool of state control and intervention, not surprisingly in some countries agreements enter into force only when registered. Statistics based on mandatory registration involve fairly accurate data.

In Hungary, a National Statistical Data Collection Program was launched in 1992, which included a compulsory collection of data about the so called annual wage agreements, i.e. the collective agreements that fix, at one or several employers, the annual wage increase, the wage minimum at the company and the lowest wages in each of the various categories. Based on the authorisation (par. 38) of the Labour Code, the Minister of Labour extended the content of this data collection and ordered the compulsory registration of collective agreements (decree 19/1997. [XII. 18.] of the Ministry of Labour). The decree confirms that the fact of registration does not influence the effect of the agreement. As there is no sanctioning of non-adherence, employers and employer organisations often fail to report the agreements newly concluded, amended, and most importantly terminated. Data are collected by the Ministry of Employment and Labour, and as records mostly include *stock* data, many of the registered agreements are terminated, or had been concluded at companies that have since gone out of business. The problem with these records is that an earlier recorded agreement is regarded as existing as long as a new sheet is submitted reporting the amendment or termination.⁷² In this way, statistics theoretically may distort both “downwards” and “upwards” on the one hand because of lax reporting and on the other hand because of failing to report termination – the latter probably causing much larger distortions. While decree 2/2005 (I. 28.) of the Ministry of Employment and Labour re-regulating the registration system cancelled the above mentioned rule, the practice has not changed. In terms of its content, registration in the Hungarian legal system seems to fulfil the role of institutional statistics rather than an authority function. Up to 2003 the processing and evaluation of data were made available by the Ministry of Employment and Labour at the National Reconciliation Council, and since then on its homepage.

71 See the review of collective bargaining from the perspective of labour law in *Nacsa–Neumann* (2001).

72 The size of error due to the “spill-over” of earlier registrations is not known. An indication of its size, however, is that out of the 1270 companies with a local collective agreement in the register in summer 2005, 370 could not be found among the respondents of the last individual wage survey made by the National Employment Office. The majority of “surplus” companies have meanwhile ceased to exist or have gone out of business and only their legal entities are kept, and the minority were firms that have recently undergone organisational change but have failed to update their registration data base.

2. *Sampling methods* are commonly used internationally, especially in Anglo-Saxon countries, where the system of collective agreements does not include the possibility of extension; therefore registration is not a statutory requirement. Surveys can be both company surveys (in the United States surveys on wages and labour costs include information on the collective agreement) and population sampling surveys. An illustration of the latter is the practice in the United Kingdom, where the labour force survey has included questions annually on union membership since 1989, on the workplace presence of trade unions since autumn 1993 and on collective agreement since 1996. Population surveys on the institutions of industrial relations, however, always involve, implicitly or explicitly, evaluation, even by asking as little as whether the respondent knows about such an institution; but many of the questions are about the impact of collective bargaining on wages and conditions of work. Information from population surveys is only limitedly comparable with registration information. Sampling surveys typically distort downwards partly because respondents can be family members of the originally designated interviewee, who know less about the workplace. Moreover, employees of smaller plants may not know themselves whether the collective agreement signed by the trade union working at the headquarters of the company/institution cover them. Nonetheless, this kind of information serves as “official” statistics in the UK, where bargaining typically takes place at the company or plant level.

In Hungary the company sheet (“the cover page”) of the individual wage survey also included questions on the collective agreement or the wage agreement in certain years. The National Labour Centre and the National Employment Office, however, which have been in charge of carrying out the survey, have made processed data available only occasionally. Of population surveys, it was a supplement of HCSO’s LFS in the first quarter of 2001 which first included a set of questions on collective agreements. This survey was repeated in 2004 (HCSO 2001, 2005). Adopting the methodology of the British *Labour Force Survey*, the Hungarian labour force survey asks explicitly evaluative questions: “Does the agreement or collective agreement between the trade union and the employer directly impact your wage/salary?” and “Does the agreement or collective agreement between the trade union and the employer directly impact your working time, work conditions and other terms and conditions of employment?” Not surprisingly, the coverage rate calculated on the basis of this information is much smaller than the one calculated on the basis of the register of collective agreements.

The penetration of industrial relations institutions (including collective agreements) is usually given as the relative index of the rate of coverage. It is, however, a recurring methodological problem to decide what should be the basis of comparison, i.e. what population should be the denominator. The first

recommendation of ILO in 1926 required to compile statistics on all who are employed in the given profession, area or industry. More recent ILO statistics, however, consider only the formally employed work force (“employees”) and leave out the “informal sector”, where – says the ILO definition (ILO, 1926, 1997) – small enterprises and the majority of agricultural employment belong to. In these areas, the small size of the enterprises or the characteristics of employer – employee relations within the enterprise (for instance, family business and self-employment), trade union activities and collective bargaining do not make much sense. This approach is typical for third world countries, where information from the “informal sector” is not available. At the same time, research and statistical methods in the EU strictly use the category of employee for collective agreements, which as a result of extensions apply to employees of small enterprises, too. Similarly, in Hungary there is no threshold limit of the number of employees in terms of applicability of provisions of either company collective agreements or of higher level agreements.

Some statisticians and researchers differentiate between *unadjusted* and *adjusted* indices. An illustration for the latter is Hungary where in certain areas (civil servants and armed forces) collective bargaining is prohibited by law therefore these employees are reasonably left out from coverage calculations. In Hungary, calculating the number of employees is a problem as the estimate of LFS by HCSO on the number of employees is available only in aggregates but a sub-branch breakdown is often needed for the purposes of public administration. Thus, the Hungarian institutional collective agreement statistics prefer to use the data of HCSO’s statistics on institutional wages and number of employees. As providing information is required only from employers employing 5 or more (in earlier years the threshold was ten and twenty), leaving out employees of firms employing 1 to 4 and the unemployed biases coverage data “upwards” (Neumann 2001b).

Estimates based on sample. First, coverage will be presented by gender and by sectors on the basis of answers to questions of the HCSO survey in 2004 not requesting direct evaluation.⁷³ On the whole, there were valid collective agreements at the workplaces of 25 percent of respondents. According to the same survey (see this author’s writing in 1.2 of *In Focus*), one third of workplaces were unionised but a smaller share had collective agreements. The ratio of coverage by collective agreement to unionisation was even smaller in important sectors such as electricity, gas, steam; education; health and social work as well as public administration (note, however, that in this last sector the law prohibits collective bargaining.) For the sake of comparability with the data of the register, in Table 3.1., estimated sectoral data are presented separately for companies employing over four persons.

73 “Is there a collective agreement in effect at your workplace that was concluded by a trade union?”

Table 3.1: Coverage of collective agreements on the basis of HCSO LFS, 2004, per cent

Sector	Men	Women	Together	Only at employers employing more than four
Agriculture	11.9	16.6	13.0	15.2
Mining and quarrying	37.0	50.4	39.7	40.6
Manufacturing	24.9	22.3	23.8	24.6
Electricity, gas, steam	44.1	56.7	47.8	48.2
Construction	4.9	12.2	5.6	6.3
Trade and repair	7.8	9.6	8.8	10.7
Hotels and restaurants	8.0	7.8	7.9	9.2
Transport and storage	44.9	52.8	47.2	49.6
Financial intermediation	25.2	23.6	24.1	25.0
Real estate, renting	11.9	11.4	11.7	12.7
Public administration	31.5	33.0	32.3	33.0
Education	44.8	43.1	43.5	43.6
Health and social work	39.2	40.3	40.1	41.7
Other services	19.2	20.3	19.8	20.6
Total	23.0	27.5	25.2	27.0

Source: HCSO.

The two questions about the impact of the collective agreement quoted in the introductory part were asked of respondents in the HCSO LFS whose workplace had a collective agreement (or in the 2001 survey the workplace had a trade union or a works council authorised to bargain, as at that time works councils could conclude “quasi collective agreements”). While 10 to 15 per cent of respondents answered “I don’t know”, 55 to 60 percent said “yes”. But the share of those answering *yes* – i.e. who thought that the collective bargaining has an impact on wages and conditions of work – made up only 20 or 21 percent of all employees in the survey in 2001 and 15 or 16 percent in 2004. The six percentage point decline, however, is not a sign of the lessening impact of collective agreements since the two surveys used different interviewing methods. What is obvious, however, is the similarity of answers to the two questions in both years: the majority of respondents failed to differentiate between the impact of the collective agreement on wages and on conditions of work. Differences between sectors are significant but essentially identical with those found in terms of workplaces having a collective agreement and a trade union. Similarly, the breakdown by respondents’ demographic (gender, age) and employment (manual, non-manual, occupational group) variables is essentially the same as by the presence of interest representation organisations and membership.

Table 3.2: Opinions on the impact of collective agreements in 2001 and 2004
(the percentage share of “yes” answers)

Sector	The collective agreement has an impact on			
	wages	conditions of work	wages	conditions of work
	2001		2004	
Agriculture	6.3	6.5	7.8	7.6
Mining and quarrying	27.5	30.6	19.6	22.2
Manufacturing	18.8	19.2	13.2	13.1
Electricity, gas, steam	31.1	31.9	30.2	32.1
Construction	4.0	4.7	2.5	2.9
Trade and repair	7.7	7.9	4.9	4.8
Hotels and restaurants	5.6	5.4	3.9	3.4
Transport and storage	42.3	43.2	31.2	30.5
Financial intermediation	15.7	16.3	14.2	14.2
Real estate, renting	9.1	9.5	5.9	5.5
Public administration	25.1	25.7	18.0	18.4
Education	37.0	37.3	24.3	24.6
Health and social work	35.1	35.9	23.5	24.1
Other services	12.0	12.7	10.7	10.8
Total	20.2	20.7	14.4	14.5

Source: HCSO.

The usefulness of registration – collective bargaining at the various levels

In contrast to sampling estimates, a registry can be expected to provide accurate and regular information on the observed phenomenon. Unfortunately, the registration of collective agreements in Hungary has neither been accurate nor regular yet; therefore coverage data can be used only with the above discussed reservations. The share of employees covered by some kind of collective agreement gradually dropped from 45.2 percent in 1998⁷⁴ to 39.5 percent in 2004. Theoretically, data published by the Ministry of Employment and Labour are adjusted: the data are controlled for overlaps due to the various levels of agreements covering the same employees, and areas where the law does not permit collective agreements were left out. The effect of multi-employer collective agreements (the number of companies covered), however, cannot be assessed because of imperfect adjusting of data and failure to register.

Coverage can be slightly increased through the extension of sectoral agreements. While this institution was made available by the Labour Code in 1992, it has only been applied in three sectors (Neumann 1998). According to the calculations of the Ministry of Employment and Labour for year 2004, which were based on HCSO data on the number of employees reported by employers, the number of covered employees grew by 56 thousand, or by 2.3 percent, owing to the extensions. The real advantage of statistics based on the register is that the agreements signed at various levels and by different types of parties

74 See: Report to the Wage and Collective Agreements Committee of the National Labour Council. Ministry of Economy and Ministry of Social and Family Affairs. Budapest, May 2000, p. 9.

(company or sectoral trade unions and company management and employer organisations) can be separated. Based on the categorisation commonly used in the Hungarian labour law, there are two kinds of agreements: the first is the single or multi employer agreements and the other is the agreements at employers subject to the Labour Code and to the law on the legal status of public employees. The number of registered agreements and the number of employees covered by these agreements by sectors are published in the annual reports of the Ministry. (See aggregate data calculated from these figures in *Tables 1 through 4* in the Statistical Appendix.) According to information provided by employers, the number of single employer agreements is annually around 1300 in the business sector (i.e. in private and other for-profit enterprises) and around 2000 in the public sector. In contrast, the number of multi-employer agreements has been around 70 to 80 in the competitive sphere in recent years while as few as around ten in public institutions. Overlaps are frequent as a workplace can be subject to several agreements; employers, however, are required to adhere only to the lowest level one, thus overlaps are not a problem. (In the spirit of the so called hierarchy of regulations, in Hungary the lower level agreement can be different from the higher level one only if it is favourable for the employee, similarly to the German “Günstigkeitsprinzip”.) The numbers of employees covered by the various agreements tend to be more or less the same as the abovementioned figures. According to the most recent data, for year 2004, single employer agreements cover 638 thousand employees and multi-employer ones cover 264 thousand in the competitive sphere. In the area of public employment, single institution agreements cover 250 thousand while the agreements shared by several institutions cover as few as 2072 public employees. These figures underpin the commonly shared conclusion of case studies that the Hungarian system of collective bargaining is decentralised and the company or institution level is dominant both in terms of the coverage and of the content of agreements.

In reality, however, collective agreements have more levels than that. It is clear from registration data that only part of the multi-employer agreements are concluded by employer organisations and trade unions. Currently as few as 17 such agreements are registered. (See itemised listing, including parties to the agreement, coverage data and dates of first signing and last reported amendment, in Table 11 of the Statistical Appendix.) As a matter of fact, not all of these are classical sectoral agreements with a national reach: one of the agreements (concluded between the county organisation of the National Association of Retail and Catering Entrepreneurs in county Jász-Nagykun-Szolnok and the Trade Union of Commercial Employees) actually intends to be nothing more than a sectoral agreement covering the county. Another agreement (which covers all enterprises belonging to the given employers’ organisation, and was signed by the Hungarian Industrial Association and

the Alliance of Autonomous Trade Unions) is not sectoral in its nature, and its coverage cannot be measured at all. The remaining 15 agreements covered only 192 thousand employees in 2004, amounting to 7.8 percent of all employees of enterprises employing 5 or more.

In the rest of the so called multi-employer collective agreements registered with the Ministry of Employment and Labour the signatories on behalf of employers were not interest representation organisations but several employers jointly (or one single business organisation representing all of them). In some cases, the agreement was never intended to cover the whole of a sector or sub-sector but to give the enterprises, usually related to each other through ownership, a common labour regulation. (This kind of agreement is typically signed by holding type groups of enterprises, successors of state owned mammoth companies “dismantled” in the early 1990s as well as by a small number of multinational companies with a few affiliates in Hungary.) While at the “holding level” trade unions have greater bargaining power – which can give negotiations sectoral importance – the content of these agreements is closer to the company level. Agreements in such groups of enterprises, thus, represent the third level of collective agreements, between the company and the sectoral level. A research in 2002 found only four multi-employer agreements which were not concluded by the sectoral employers’ organisation but still served to regulate the whole of the given sector or sub-sector (such as the clothing industry). In these cases the signatory on the employee side is the sectoral trade union, and the employers subject to the agreement are not related to one another through ownership. It is doubtful, though, whether in a less strict system of criteria these agreements can be regarded sectoral (*Nacsa–Neumann 2001*).

Statistical data tell little about how much of sectoral collective agreements can be enforced in practice. Case studies suggest that sectoral regulations usually set requirements (for instance the amounts in the wage tariff system, annual wage increase percentage) very low so that companies can easily meet them (*Tóth 1997b*). Case studies have also proved that quite contrary to the Western European practice, companies prefer to retain their autonomy to determine wages and conditions of work. One consequence is that the majority of employers’ organisations are not authorised to sign sectoral collective agreements on behalf of their members (See *Tóth* chapter 3.3 of *In Focus*). Furthermore, those agreements that are concluded do not become automatically mandatory for all companies because the members of the employers’ organisation use “opt-out” clauses concerning the most sensitive stipulations (e.g. wage tariffs) once they endorse the agreement negotiated by the organisation, which leaves sectoral collective agreements without much force, simply a collection of “good wishes” (*Neumann–Tóth 2002b*). Interestingly enough, in some sectors employers’ organisations and trade unions maintain good labour

relations and annually agree on recommendations on the increase of wages but – as if knowing what it is worth – do not regard it a collective agreement and do not register it with the Ministry of Employment and Labour. This happens for instance in the trade sector, where lately interest representation organisations have regularly signed “wage agreements” which practically repeat the national recommendation for wages and add some new aspects to be considered in the company level wage negotiation/wage determination (*Neumann 2002b*).

Collective bargaining or the wage determination system in Hungary has levels about which the register does not provide any information. First of all, such level is the national one: as widely known, bargaining over the statutory minimum wage and the recommended wage increase in the business sector takes place in the Interest Reconciliation Council (the highest level tripartite forum). The annual, or three-year agreement on the increase of salaries in of public and civil servants is achieved at their tripartite interest reconciliation forum (currently the National Public Service Interest Reconciliation Council) (see Berki, chapter 2.3 *In Focus*). While these are not collective agreements in the legal sense, functionally perfectly fulfil the role of collective agreement. Moreover, when the salaries of public servants were raised by 50 percent in 2002, first the guidelines of distributing the extra amount of wages were developed and approved by the Interest Reconciliation Council of Public Servants, and it was after this that the lower level tripartite fora at the sectoral ministries and institutional collective agreements adjusted the guidelines to meet local needs (*Neumann–Tóth 2002b*). Even though not via collective agreements in the legal sense, an important role is played by the negotiations of the trade unions and the employer (in this case the state) in wage determination in the whole of the public employee and civil servant areas.

At the same time, in Hungary collective bargaining at the workplace level remains very important. In large companies, with several plants, the collective agreement concluded between the management and company trade union in the headquarters and then registered is supplemented by so called local appendices responding to the specialities of the plant or of local activities. The number of appendices depends on company size, complexity of structure and the different labour markets of the various plants. (According to a survey, at companies employing over one thousand the average number of appendices attached to the agreement concluded in the company headquarters was 3.4, while 2.3 at companies employing 500 to 1000 (*Neumann 2001a*). Sub-company level agreements play a very important role in the decentralised Hungarian wage determination system: traditional informal (individual or group level) bargaining has been increasingly incorporated in the working of the company (See more on the topic by Tóth in chapter 3.3 and Bódis in chapter 4.2 *In Focus*).

Finally, the data base of the register can be used to examine the variables of companies having a collective agreement. The distribution of agreements by the size of the company underpins the conjecture that company collective bargaining is basically a business of large companies. According to an analysis, collective agreements were concluded in only 2.8 percent of legal entity enterprises and non-profit organisations which – according to the HCSO data base – employ at least 5 persons. In this group of companies, however, three quarters (!) of the firms employing over one thousand and two thirds of those employing 500 to 1000 had a local collective agreement. With the help of another data base, the connection between ownership structure and collective agreement can be examined too. Using the individual wage survey of the National Labour Methodological Centre, it is found that 68 percent of firms in domestic ownership employing over 300 has a collective agreement. In the same size-category, 84 percent of firms in minority foreign ownership have a collective agreement, while 66 percent of firms in majority foreign ownership and only 37 percent of companies in full foreign ownership do so. On the whole, among the relatively large companies, the share of firms without a collective agreement is greater than the average only in full foreign ownership firms. As evidenced by case studies, unionisation is relatively low in the very same group of firms (Neumann 2001a).

Information in the register on the content of collective agreements

Apart from the basic information on collective agreements and on their coverage, the Ministry tries to collect information on the content of the agreements in the register. As the content of the collective agreements, at least what regards the regulation of individual employment relations can deviate from the Labour Code (to use the legal terminology: part III of the Labour Code is *dispositive* while the rest of it is *cogent*), it is almost impossible to record the provisions of the agreements. A simple data sheet can obviously address only the most frequent regulatory areas. The registration sheet on the one hand asks information on areas that are traditionally included in collective agreements in the company practice (the annual increase of the base wage, wage tariffs, social provisions etc) and tries to standardize answers, for instance with the help of tariff categories developed for statistical purposes. On the other hand some of the questions are related to the sections of Part III of the Labour Code that permit deviation from the legal provisions in an itemised way. As a matter of fact, most collective agreements in Hungary adopt this logic rather than try to find innovative solutions to local industrial relations problems. Even if an agreement – in line with the EU employment guidelines – includes for instance a training policy promoting “life long learning”, or introduces new forms of work organisation, or rules to harmonise work and family needs, or a preferential employee share program, there is no separate

space in the sheet to enter this kind of information. Furthermore, the actual content of the usual Hungarian collective agreements can only be roughly conjectured from the information provided. A deeper analysis should go in the legal language of the agreement and the evaluation should not entirely rely on the potentially unilateral and biased interpretation of the employer submitting it for registration.⁷⁵

The decreasing importance of wage agreements. As mentioned above, data on the so called wage agreements have been collected and processed since 1992. These agreements are at the core of collective bargaining, and were especially important in the years after dismantling the system of central wage control (1990–3), when apart from the macro level negotiations on wages and minimum wages, keeping track of collective agreements remained the state's only tool to control wage outflow in the competitive sphere. Nowadays, with overwhelming private ownership, the agreement between employers and trade unions has lost importance in this respect as employers in the business sector are hardly interested in paying wages much higher than productivity growth. Furthermore, it appears that in Hungary pressure by trade unions is not an important factor in setting wages – except in some parts of public utilities.⁷⁶

While the term “wage agreement” is not used in the Labour Code, in practice the document on the annual wage increase and its implementation is called so. This document is a separate part of the collective agreement and has the same legal status. In contrast to the collective agreement, which is concluded for several years or for an indefinite period, wage agreements are made annually, normally in the months after the National Interest Reconciliation Council has agreed on the minimum wage and has made its recommendation on the wage increase. The practice of annual wage agreements started in the early or mid 1990s when the annual 20 to 30 percent inflation rate evidently had a decisive impact on incomes. While in the public sector and in the public utilities part of the business sector (typically public transportation) several three-year wage agreements have been concluded, wages have never been pegged to any macro or micro economic factors at the company or sectoral level. Attempts, however, have been made at the national level: first trade unions demanded to index wages with the inflation rate, later the Orbán administration wanted to introduce a formula to ensure that real wages grow by half of the rate of GDP growth. For a variety of reasons, however, none of the proposals have evolved into an agreement.

Between 1992 and 1997 statistics were compiled on sectoral and company level wage agreements while data on single or multi employer wage agreements (by the labour law term) in the business sector have been collected since 1998. Consequently, only company level data are comparable throughout the period. While in the early 1990s (more precisely between 1992 and 1994), company

75 The paper by *Neumann and Nacs* (2004) makes an attempt at this kind of analysis examining the impact of the amendment of the Labour Code in 2001 on company collective agreements.

76 The impact of collective agreements on wages has been researched by few labour economists. See for instance the research by *Kertesi and Köllő* (2001) on sectoral wage differences and *Neumann* (2001b), (2001c) on the trade union wage gap.

level wage agreements covered 550 to 590 thousand employees, in recent years their number was fewer than 300 thousand. At the same time, the coverage of sectoral level agreements dropped dramatically in the early 1990s (from the record high 870 thousand in 1992 to a mere 88 thousand in 1995, the year of the Bokros package), and between 1998 and 2004 the scope of multi employer wage agreements decreased only slightly. While in earlier years these covered 300 thousand employees, in the last years as few as 260 thousand were covered, which is only 13.5 percent of the total workforce in the competitive sphere (see details in Tables 6 and 7 of the Statistical Appendix).

The registration system of the Ministry of Employment and Labour follows the rounds of the annual wage negotiations, and data are processed and published on an annual basis. As a result, what is published is freshly reported information – as opposed to data of collective agreements in the register. There are other reasons why the number of wage agreements is more adequate for international comparison than that of collective agreements. In other countries the primary function of collective agreements is to determine wages; in some countries (like the US) collective agreement on wages is mandatory – if a ballot approves unionisation –, while in other countries collective agreements are defined as the autonomous regulation of wage tariffs by employers and trade unions. In Germany *Tarifautonomie* (autonomy of social partners in setting wages) is a constitutional right, reflected by the German word for the agreements, too: *Tarifvertrag*. In Hungary, data recorded between 1988 1998 and 2003 suggest that 33 to 37 percent of company agreements did not regulate the “remuneration for work”. Tariff agreements, regulating individual wages to some degree, are even rarer: altogether only 136 company wage agreements included a tariff agreement, covering 3.1 percent of all employees in the competitive sphere. Moreover, the workplace interpretation of wage tariffs in Hungary is different than in Western European countries or the US (see chapter 3.3 *In Focus* by András Tóth).

As the wage increase specified in an agreement and perhaps agreed wage rates have economic policy significance, it seems reasonable to try to compile detailed statistics on them. In the system of wage agreements, the pivotal point is the National Interest Reconciliation Council: for 2004 it agreed on a HUF 53 000 minimum wage and recommended a 7 or 8 percent gross wage increase for “the business sector and the participants of collective bargaining”. Wage agreements concluded for year 2004 on the increase of base wages and increase of earnings have to be compared to the Council’s recommendations. The results of the comparison are summarised in Tables 11 of the Statistical Data Chapter.

For the sake of completeness, one more data collection of wage agreements should be mentioned, which is neither a sampling nor a registration type collection of data. In the framework of the so called Individual Wage Survey (ear-

lier called the wage rate survey), the National Employment Office not only collects information on wages from employers but also requests data on wage agreements in the competitive sphere. While the wage survey itself is a sample, information on the company are asked from each interviewed firm. This information obviously includes whether a wage agreement has been concluded with the trade union or whether there is a higher level agreement on the wages of employees. Theoretically, all companies employing over 50 are interviewed and smaller companies employing at least 5 are sampled. The rate of returned questionnaires was low in small enterprises. While in the case of large companies the results of the survey seem to be reliable, answers tend to reflect the evaluation of the company's human resources department or of the entrepreneur. Owing to this, in the National Employment Office's statistics there are three times as many companies having a wage agreement than in the records of the Ministry of Employment and Labour which is based on the company's self-reporting. On the basis of processed data it is both possible to break down wage agreements by the size of the companies and to know the average earnings of employees at companies with and without wage agreement. Among companies employing fewer than 1000, earnings were higher in companies with a wage agreement while in bigger firms the relationship was the reverse in 2004. (See Tables 5 of the Statistical Appendix.)

Growing importance of collective agreements to make employment more flexible. "Substantive elements" of collective agreements are much harder to evaluate than wage agreements. Although data are published annually, these cover all agreements, including those that are not in force any more. Furthermore, because of the frequent changes in the labour law, it is impossible to interpret them. To understand the contractual provisions valid in the given legal environment, flow data of the given period have to be studied. To day the only one research of this kind was about the impact of the amendment of the labour code in 2001 on the data base of new single employer agreements and amendments reported by companies in 2002 and in the first six months of 2003. These were compared to agreements newly concluded or amended in 1998 and 1999 (Neumann-Nacs 2004).

The 2001 amendment considerably extended the scope of flexibility tools applicable via an agreement, and in line with relevant EU directive introduced new minimal standards on the length of working time and re-regulated the increased protection of certain especially vulnerable groups of employees. Of the various tools of flexibility, the research focused on the internal numerical flexibility of the work organisation, i.e. how the employer can adapt to changing needs (primarily in terms of quantity) through work schedule and organisation of working time.

Reported amendments highlight that employers and trade unions exploit the various possibilities. The option of reference period is widely used: 37

percent of registering companies regulate a 2 to 6 month reference period in their collective agreements, involving almost half (49 percent) of employees covered by newly reported single employer collective agreements. The new possibility of the annualising working time is used by many: 32 percent of all companies reporting the amendment of their collective agreement and employing 43 percent of covered employees do so. Similarly, relatively many firms use the option of cumulating rest days: in 43 percent of companies the collective agreement allows cumulating over up to one month while in 22 percent over a six month period.

Table 3.3: Regulation of flexibility tools in the company collective agreements, 2002–2003

Tools	As a percentage of reported collective agreements	As a percentage of covered employees
Working time reference period (used)	78.6	90.6
– two months or shorter	34.6	41.9
– longer than two months but shorter than four months	32.1	45.0
– longer than four months but shorter than six months	5.0	3.7
Annualised working time	31.6	42.6
Regulation on work schedule		
– in shift work	68.8	79.8
– in split working time	24.5	41.3
Regulation on rest time	71.3	88.6
– cumulating rest days in one month	43.4	69.6
– cumulating of rest days in six months	21.9	20.8
Maximum length of time of re-allocation		
– fewer than 44 work days annually	16.6	14.6
– more than 44 work days annually	21.2	34.0
– not regulated	62.1	51.4
The maximal total length of time of re-allocation, posting and transfer		
– 11 per year		
– fewer than 110 work days a year	21.5	17.8
– more than 110 work days a year	11.7	27.3
– not regulated	66.8	54.3
Regulation on the form of requesting overtime	78.9	77.7
The maximum amount of overtime that can be requested		
– fewer than 200 hours a year	30.3	22.8
– 201 to 300 hours a year	57.7	55.1
– not regulated	12.0	12.1
The maximum amount of standby that can be requested		
– 201 to 300 hours a year	21.2	32.1
– not regulated	78.9	77.9

Source: *Neumann and Nacsá (2004)*.

Due to methodological considerations, it is difficult to quantify changes. While almost all collective agreements (97 percent) signed before 2001 had stipulations on work time, only 18 percent prescribed unevenly distributed

hours with the statutory working time having to be kept as an average of 2 to 4 months' reference period – quite a surprise as the law made this possibility available in 1995 with the aim to enhance collective bargaining. The conservative conclusion is that employers – at least those concluding a collective agreement – continue to prefer the traditional tool of overtime, even though it is more expensive, to flexibilising work schedule by introducing the reference period.

The wide use of new flexibility tools, however, does not mean that overtime, the traditional tool of adaptation, has been neglected. The collective agreement specifies the rule of requiring overtime work in 79 percent of companies (78 percent of employees covered by collective agreements). Additionally, 58 percent of employers with a collective agreement, employing 55 percent of covered employees set the limit of overtime work higher than the statutory (at 200 to 300 hours). The share of such employers has somewhat dropped after the 2001 amendment of the law, probably because it increased overtime hours from 144 to 200 that can be required without a collective agreement [(4) par. 127 Labour Code]. Still, the majority of Hungarian employers with a collective agreement demand to increase the annual limit of overtime work.

The impact of the amendment of the Labour Code in 2001 encouraging collective bargaining has been felt not only at the company level. It is noteworthy, however, that over the past years only one new sectoral collective agreement has been concluded and that was in agriculture. Since 2001 seasonal work, widely used in this sector, has been allowed only if regulated by a collective agreement. The sectoral agreement has stabilised the conditions of employment and employers' labour management in a large part of the sector (to be more exact: at member employers of MOSZ, the signatory employers' organisation).

3.2 Collective Bargaining in Publicly Owned Companies – A Case Study from the Road Public Transport

KRISZTINA KORCSOLAY-KOVÁCS

Characteristics of the operation of road public transport

Road public transport is in the center of public interest, mainly in case of conflicts. Its economic problems can be hardly followed by outsiders. The operation of the sector's Volan Companies in majority public ownership is supervised by ÁPVRt (the Privatisation and State Holding Company) and other governmental institutions, first of all, the Ministry of Economy and Transport. Tariffs are set by local governments and approved by the Ministry of Finance, following inflation and social policy considerations while operating costs are determined by the market. Consequence is the lack of resources and the companies are not able to operate in conformity with the market, or to perform an independent economical activity. Redistributive policies affect investments as well. Therefore companies and their management are depending on the state.

Labour relations in the sector

Players

The Privatisation and State Holding Company (ÁPVRt)

The activity of ÁPVRt is regulated by the Act on Privatization – 1996/XXXIX, the annual laws on national budget, government and ministerial decrees. From 1995, ownership rights over Volan Companies are exercised by ÁPVRt, and operation of the companies is controlled by the ministries, mentioned before. Up to 2002, majority state ownership was the rule, from that time onwards full privatization became possible.

Amendment of Act on Privatisation in 2003 allowed local governments to take over companies in the sector, for free. When towns – like Pécs and Szeged – demanded the ownership of Volan companies, the government refused these demands, having in mind privatisation intentions. Companies and experts were charged to elaborate ownership strategies. To date no choice has been made, several possibilities remain open ranging from creating regional or county level companies to case by case privatisation.

Amendment of the law of 2002 had no effect on the bargaining strategy of trade unions. Unions do not expect near privatisation and consider former wage increasing strategies still valid.

Association of Road Transport Ventures (ARTV)

ARTV is an employers' association, which represents professional interests of enterprises providing road transport services and similar activities. ARTV has 73 affiliates, from which 52 concluded sectoral collective agreement.

Number of employees, who are under the scope of the collective agreement, is 25500. From those, who signed the collective agreement, 24 companies are involved in the passenger transport.

In the protection of the interests of its affiliates, ARTV represents members' interests in sectoral interest reconciliation fora. ARTV is a member organization of Employers' and Manufacturers' Association and – as a member – initiates discussions at the top level of negotiations. ARTV has also relations with other institutions, or associations, like governmental bodies, or National Association of Freighters, International Association of Private Freighters.

Affiliates of ARTV are authorized to issue common recommendations with employees' representatives and conclude medium level agreements. According its Statute, keeping agreements is mandatory for the affiliated companies, without subsequent ratification and excluding any opt-out. Among the agreements concluded, the most important is the *collective agreement for the road transport sector*, signed in 2003.

Road Transport Workers' Union (RTWU)

RTWU acts from 1990 as an independent, professional trade union. Membership in the period of establishing was nearly 100000 from the passenger and goods transporting branches. This membership has been reduced significantly in 1992 and 1993, when Volan transformed to holding companies. In the field of RTWU's activity (mainly in Volan Companies and other small companies, which belonged to Volan before), number of employees today is about 24000; trade union density is about 60 per cent, including blue collar and white collar workers. With about 14000 members, RTWU is the largest union in the sector.

One of the most significant results of the trade union is that a sectoral collective agreement has been concluded and local collective agreements are regulating living and working conditions at every workplace. RTWU is planning to involve all of the companies in the sector to the scope of sector collective agreement.

Apart from RTWU, there are two other trade unions at the Volan Companies; Bus Workers Union (BWU) and Union of Workers' Councils in Transport (UWCT). According to an estimation of 2001, membership of these two unions was 1000–1000 affiliates. From that period, UWCT influence is better; during the works council elections in 2004 received about 10 per cent support. It means that together with RTWU, which has a support of 74 per cent, UWCT is the other representative trade union.

Institutions of the labour relations system

Apart from the very recently established social dialogue committee of the road transport sector, other permanent institutions do not exist. There are, however, institutions of partnership, as follows:

- Sectoral collective bargaining
- Modernisation Committee
- Social Dialogue Committee for the Road Transport Sector
- Collective bargaining at lower levels.

Collective bargaining – sectoral collective agreement

Labour relations system at sectoral level is a bilateral. During negotiations of the annual amendment of the collective agreement a committee consisting of the representatives of RTWU and ARTV, prepares suggestions for approval. Apart from the workers' and employers' representatives, owners' representatives are also present at the annual wage negotiations. It is typical, that employers' association forward a statement, which is already approved by the owner.

The first sectoral collective agreement was concluded by RTWU and ARTV in 1991 for an undefined period. This agreement has been amended several times. In the first period one or two companies, in every year missed to join the sectoral collective agreement for some local reasons. From 1998, all of Volan companies are signing the agreement. The sectoral collective agreement is in fact a framework agreement, the conditions of which can be improved on local levels. (A typical example is that working time and rest time for workers who are on the road, should be fixed in local collective agreements.)

Modernization Committee (MC)

This is a permanent tripartite committee, established in 2003 and based on a "three-year agreement". Members of MC are: Ministry of Finance, Ministry of Employment Policy and Labour, Ministry of Economy and Transport, RTWU and ARTV representatives. Reason of its establishment is to negotiate issues of dissatisfaction among employees in the road transport sector in view of finding scheduled solutions. MC had a very important role between 2003 and 2005 by providing a possibility to negotiate on significant tasks relating to passenger transport and continuous dialogue.

Social Dialogue Committee for the Road Transport Sector

Within the frame of an EU program, the government initiated this institution, but the presently available information on its activity is not enough for an evaluation. Interested workers' and employers' representatives of the sector negotiated regularly, before the start of this project, concluded a collective agreement, mentioned before, and now they are working on its extension.

Local collective bargaining

As described above, the sectoral collective agreement provides a framework to regulate employment conditions. Next step is to negotiate local collective agreements, whose outcome depends on what companies can financially afford

and local trade unions are strong enough to reach. Local collective agreements shall improve conditions of the sectoral agreement in favour of the employees. In practice, local agreements are concluded before signing the sectoral agreement, therefore this principle is not always observed.

Work related conflicts, serial of disputes, exercising pressure

Labour conflicts are arising most often – both on sectoral and local levels – during wage negotiations. Disputes, debates on diverging interests are normally settled by negotiations. Trade unions initiated a strike only twice, during fifteen-years, in 1990 and 2003. Unions threatened employers more often with strike, last time in 2005. Trade union try to exercise pressure not only on employers, but also on the HPSHC, in other words, on the state having a decisive role in financial and ownership matters.

Labour relations between 1999 and 2005

Events in 1999–2000 – lessons from a trade union coalition

In OÉT (the National Interest Reconciliation Council) the social partners positions in the 1999 autumn round of were significantly different on minimum wages and income increasing for 2000. Employers offered 8–10 per cent, but trade unions demanded 13.5 per cent. Government proposed an annual wage increase of 8–9 per cent and recommended a three-year price-wage agreement to the partners, in order to reduce the rate of inflation. Government's recommendation was not negotiated. The employee side called for more confidence among partners and guaranties for the agreement. According to the evaluation of trade unions, labour relations on macro level have not worked between 1998 and 2002 during the conservative Orban-government, in December 1999 conflicts arouse in wage negotiations both in the business sector and public sector and a solidarity block of transport unions was formed to emphasize wage demands. A cooperation agreement – concluded to define common actions and demands – was signed by the RTWU, Bus Drivers' Union of Budapest, Locomotive Drivers' Union, and Federation of Urban Public Transport Workers' Unions. (Later on Railway Workers' Union, an affiliate of the Hungarian Trade Union Confederation also jointed this cooperation agreement, indicating the possibility of cooperation going beyond trade union confederations.)

After signing the agreement, trade unions still continued wage negotiations and collective bargaining. Unions' main goal was to demonstrate their cohesion, proved by the signing of this agreement. Another goal was to maintain a lower retirement age for about 5000 locomotive drivers, 4300 trolley, tram and bus drivers in Budapest, and more than 11000 bus drivers under the authority of RTWU, against the rumours of unfavourable amendment of the respective law.

Most critical part of the agreement referred to solidarity strikes. By the founding of the Autonomous Trade Union Confederation, trade unions of transport workers can be characterized with their readiness to actions, however solidarity strikes have been experienced very rarely. The text of the agreement mentions only strikes, longer than two hours. Practice shows that in the road transport warning strikes are in general short, but railway workers had some strikes for a longer period.

Cooperation agreement finally came into force from January 1 of 2000 without requiring to express solidarity with the railway workers' planned strike of December 20 of 1999 by stopping work. The argument was, that one week is not enough to organize a solidarity strike. Agreement came hardly into force, and it was an indicator of the lack of experience, and uncertainty of participating unions in this kind of cooperation.

RTWU made a decision on a warning strike on January 10 of 2000. From continuous checking the spirit of union members and collected information, became clear for the trade union leadership that expectations for a common action of trade unions on the base of cooperation agreement have been overestimated. A strong majority of the membership supported the action and expected a demonstration which shows the strength of unions. It was supposed, that – as happened with railway workers during their strikes – this part of the transport branch also deserves the attention of the population and more intensive support of the state. A certain part of the employees opposed the agreement arguing that there is no reason to support railway workers' actions, because their wages are high enough. This was reinforced by the employers' side, when they expressed to trade union leaders, that they oppose the signing of the cooperation agreement.

It became clear for everybody; trade unions could paralyze public transport as such with this broad scale solidarity. Both the Government and employers recognized the strength of trade union cooperation. Therefore, during the negotiations in the road transport sector, employers' side – just before agreement – declared to RTWU that only condition of signing the agreement is to terminate the cooperation agreement.

It was a good tactical step from the employers, because RTWU for the successful wage agreement has been pressed to amend the text of the cooperation agreement and approve a weaker form of support for the common actions. By this step, first time in the RTWU history, employers reached the amendment of the cooperation agreement, so the trade union coalition practically dissolved. The government's tactics were successful; they could break the unity of the partners, who signed cooperation agreement, to separate the wage negotiations of different sectors just in time, to remove trade unions from a block, which seemed originally strong. These actions have been supported with well-considered propaganda actions; anti-union forces created conflicts among the

union members in different sectors. At the same time they discredited trade unions by their campaign. Employers operated with apparent or real advantages in order to reach a quick agreement with trade unions. Followed by the separation of RTWU, same method was used against the trade unions of Budapest Public Transport and finally, railway workers unions which during their wage negotiations declared a strike without external support.

At the same time with announcement of the strike, the media reported that Volan Companies will increase the density of their lines. Trade unions of railway workers during their strike have been affected by several pressures. The employer published the sum provided to trade unions annually as a support and cancelled the collective agreement. Application of a check-off system for trade union fees was refused. The employer declared that immediate wage increase is blocked by trade union irresponsibility. With these manoeuvres the employer divided the trade union members and the non-organized employees. Information was published in the media – paid by the employer – on the decreasing number of strike supporters, and the damage, caused by the the strike to the Hungarian Railways, which is in hard financial situation. Trade unions have been defeated not only in their wage struggle, but also in losing sympathy of the public. These measures of the employer, behaviour of the management of the Hungarian Railways against trade union demands, gave an example to be followed to other employers.

Events in 2003

RTWU together with other two unions in the sector [Bus Workers' Union (BWU) and Union of Workers' Councils in Transport (UWCT)] concluded an agreement already in 2002 with HPSHC on a program, closing the wage gap compared to developed economies. RTWU prepared a document, supported by other unions and employers in early November. In this program, RTWU determined ambitious goals, first the wage level at Volan Companies will reach the national average and finally the EU average wage level will be reached. HPSHC refused negotiations, however it was promised earlier. RTWU considered that HPSHC applied the tactics of playing for time only, when agreed to elaborate such a program. BWU and UWCT expected further negotiations and declared in the media that to call for a strike is too early. For the pressure of the union members, RTWU could not approve this stalemate situation and initiated a strike for January 6 2003, for the closing up program and wage negotiations.

HPSHC, as owner asked for the assistance of the Mediation and Arbitration Service (MAS). Negotiations started on December 14 2002 with involvement of the Ministry of Finance, the Ministry of Economy and Transport, the Ministry of Employment and Labour; HPSHC, RTWU and ARTV representatives have been also involved.

Parallel to the negotiations, strike preparation went on. The pressure on the government was increased, at the same time several other trade unions prepared strike actions. In order to provide uninterrupted public transport, the government wanted to avoid strike and conclude an agreement. Avoiding a strike became a political issue but the government's offer was far from the employees' expectations and the unions went on strike on January 6 2003 (according to trade unions, 70 per cent of membership participated in the strike).

After this action, negotiations with the trade unions continued the voice of the employer's side was taken by the Government, personally by the Minister of Labour. This fact had a direct influence on the contents of the agreement and its mandatory character. The employers' association sometimes was absent from the negotiations what indicates how the agreement became a direct political issue. As a result, a three-year agreement was concluded between RTWU and ARTV, which was also signed by the President of HPSHC and the Minister of Labour, as a guaranty of its implementation. This agreement was a big step forward; wages in the sector were increased nearly to the national average despite limited paying capacities of the companies in financial difficulties.

Against the original idea of unions' to finance higher wages from external sources (with government help), companies had to finance significant wage increasing at their own expenses.

Events in 2005

The three-year agreement determined the rate of wage increasing only for two years. For 2005, it was only fixed as a principle, that HPSHC will take special care to Volan Companies. Annual wage negotiations after the relaxing became sharp again. The trade union when its wage demands have been formulated, wanted to continue wage dynamism, as defined in the three-year agreement, therefore demanded a 12 per cent increase, twice as the 6 per cent recommended by OÉT (the National Interest Reconciliation Council). Negotiations – however the owner was present – came to a deadlock, because the management, according to the practice of former years, was waiting for the owner's instructions. Representative of HPSHC remained silent. Negotiations stopped; therefore trade union again initiated a strike for January 24 2005. Only little time was available to organize this strike and it was necessary to harmonize wage negotiations on sectoral and local levels. During negotiations, the union delegation was aware that both employers and employees consider the main task of trade union to improve financing capacities of the sector, as it was defined earlier, and everything should be subordinated to this goal.

Companies' financial policy was significantly influenced by the relatively high wage rise. As a consequence of the companies financial tensions, grave

“anti-labour” measures – lay-off and outsourcing of service units – appeared among their strategic goals. The dilemma, to increase wages further or to maintain jobs caused disputes within RTWU.

Media had a significant impact on the events, by publishing RTWU Presidium’s resolutions of the last meeting before strike. This contributed probably to the fact that the offer of the Ministry of Employment and Labour arrived during the meeting of the RTWU leadership, which approved the oral recommendation and to suspend the call for strike.

Further events did not meet trade union’s requirements. Because this offer was not received on an official way from an “external authority”, which formally was not present at the negotiations, the owner, HPSHC declared that the promise of an outsider governmental body is not binding for them and returned to its original, lower offer. It is not known even today, that this manoeuvre was a result of well elaborated tactics or a sign of cooperation loopholes between two governmental institution.

As a matter fact, the situation changed in favour of the owner, by the postponement of the strike, trade union lost its most effective tool, organization of a new strike became impossible because local agreements have been already signed. Finally, an agreement was signed on sectoral level with a weak content and minimum result.

Government’s strategy, means and results

According to government’s opinion, during recent years different areas of passenger public transport need to be treated in a different way. In the transport policy, elaborated by the Ministry of Economy and Transport in conformity with EU requirements, rail transport is dominant; passenger road transport has only a second best position. Another difference in the treatment of passenger transport areas is to be found in the financial conditions. Financing of losses and subsidies are different for state owned and municipal companies. Losses of Hungarian Railways and Budapest Public Transport Company have been compensated on “state level”. For Volan Companies, positive financial results is an owner’s requirement. In addition, the different segments are under the control of different institutions. Hungarian Railways belong directly to the Ministry of Economy and Transport, Volan to HPSHC and Budapest Public Transport Company to the Budapest local government.

During the examined period, governments have not possessed a comprehensive strategy for the future of road transport. This is the reason, that during conflicts, the main goal was not a real solution of the structural problems, but a temporary surface treatment of the problems. It should be noted that methods of right wing and left wing governments were different. The Orban-government (conservative) took the advantage of the conflicts in the sector, gave a hard “message” to trade unions, that it cannot be blackmailed with strikes

and is stiff in this respect. Other events, independently on government's will, also weakened trade union positions. The Medgyessy and later, Gyurcsany governments (both are socialist-liberal coalition) never used hard methods against trade union during negotiations in 2003 and 2005. During the election campaign of 2002, the stronger party (socialists) of the winner coalition concluded an agreement with trade unions, their political goals and tactics always depended on the actual financial and political positions. At the same time – in contrary to the conservative government – they are always ready to negotiate and find political solutions. They also played for time, tried to avoid scandals and achieve successes with a better media performance.

Concluding on the events of 1999 and 2000, it should be noted, that transport unions survived the most serious defeat in the last fifteen years. One reason of defeat was a bad trade union strategy, because – on the base of former experiences – it was supposed that their goals are best served by the application of tools once used with succes (strikes in case of railway workers and threat with strike). It was not taken into account, that management – in accordance with government's political will – is well prepared. Their main goal was to break the strategically strongest transport unions, which can be a message to the Hungarian trade union movement as a whole. Its consequence is – even today – that trade unions of the sector are accusing each other for the defeat; they do not make efforts to a closer cooperation and stronger wage demands.

HPSHC during negotiations served always the government's goals. It played the role of an "employer of management" in state owned companies and tried to explore and exploit the weak points of trade union. HPSHC also tried to conclude local agreements before the sectoral agreement. A new phenomenon in 2005 was the intervention of the Minister of Economy and Transport. At the same time, it was a surprise to experience the lack of harmonisation among the ideas and activity of governmental institutions. (As it was seen before, HPSHC did not want to implement the promises, taken by the Ministry of Employment and Labour to RTWU.)

Goals and tools of the employers' side

1. Goals, defined by HPSHC and other governmental institutions under certain conditions and for their tasks. (An example is the requirement to avoid company deficits.)

2. Professional goals related to financing and development on sector level.

3. Goals, given by the own financial situation of Volan Companies. (Goals are probably different at th small-sized Hatvan Volan, whith a staff of 179 and at Volanbus with its 3196 employees.)

Employers' behaviour during negotiations can be explained along these goals.

Ad 1) Situation of the employers' association in the passenger road transport sector is a special one, because ARTV is authorized to conclude agreements with the trade union side, but in its contents owner's will is definitive. Members of the ARTV negotiating group often had to face impossible financial requirements, defined by the owner as a condition of wage increasing. During negotiations government and HPSHC, the owner's representatives had a dominant role, ARTV had only a secondary position. Very often they had to content with a spectator's role. For the full performance of passenger road transport services (keeping the timetable and the level of services), majority of Volan Companies was forced to act under negative balance. Evaluation of management's performance instead market results, was based on meeting HPSHC requirements, which gave a good reason to keep HPSC under direct control.

To meet owners' requirements companies should undergo a significant reorganization. Consequences of this would lead to a new conflict with the trade union. Employers could reach that local and sectoral level wage negotiations are running at the same time and this phenomenon is useful for the employers to reach their own goals. During preparation of strikes, trade union received news on several local wage negotiations, sometimes on agreements. No doubt, implementation of the so-called "welfare principle" requires to conclude sectoral agreement first, and then local agreements with improved conditions. This procedure is not against to details of legislation; however, legitimacy of this top-down method is questioned. This uncertainty of legislation is reflected in the fact, that very often declaration of intentions for local agreements has been published before negotiating sectoral agreement.

Ad 2.) During all the three conflicts, sector's financial conditions came to the attention of trade union demands either openly, or hidden. Employers made understandable to trade union, that only solution of financial problems can create a base for fulfilling trade union goals. RTWU faced this phenomenon most openly during the 2005 bargaining round.

Ad 3.) Financial situation of some Volan Companies encouraged their management to initiate parallel negotiations and conclude local level agreements during sectoral negotiations. Therefore, not the sectoral agreement was the base for setting wages (it was mentioned before, that often paying capacities of the companies have not been considered). Local trade unions unwillingly approved this condition. It is important to point out, that local trade union leaders are employed by the Volan Companies, and therefore they are in a very special position in implementation of trade goals and consideration companies' interests.

Goals and tools of the trade union's side

From 1999, the goal of RTWU was wage rise on sectoral level. In the first step, the strategic goal was to reach the national average, then the average of

the whole sector. In the third stage a gradual closing up to EU wages was targeted. Naturally, it was an important point not to harm former results, social achievements and to protect employment level and to improve working conditions.

Struggling for the primary goal, trade union had to face the financial problems of the sector. Another problem was that because of the continuous financial difficulties of the sector, trade union wage demands caused troubles to the companies. As a consequence of wage demands, trade union faced to the second serial of problems, related to lay-offs and outsourcing, raising the question, what should be the primary goal, wage increasing, or the protection of workplaces.

From the situation of the sector and unchanged financial conditions wage closing up ambitions of trade union can accelerate government's privatisation ideas. A conclusion for the trade union can be, that under given financial conditions, a wage closing up strategy could be a new source of problems. Proper solution should be involved to trade union tasks. A series of conflicts showed both strength and weaknesses of the trade union. Results of the consequent and disciplined struggle during sectoral level negotiations, partial closing up of wages during five years are evidence of trade union's strength. When the operation and ability to act were controlled, experience shows that that RTWU considered as a special task to reinforce unity and solidarity within the trade union and to develop cooperation with other sectoral unions. Revision of the defeat of 2000 now is a part of training programs, as well as using the experiences to rene relations.

Trade union goals can be briefly summarized. In short term, to exercise influence – even with a common platform with employers – to improve financial situation of the sector, at the same time to provide better conditions for the employment. It can be fulfilled by the extension of the sectoral collective agreement and provide equal conditions for the companies in the sector. Since the EU accession, the extension of mandatory guaranties in passenger transport to private sector also serve the provision of equal conditions in the competition. Public service contracts, concluded in 2005, make mandatory for Volan companies to involve subcontractors', which are not under the scope of collective agreement. A long term goal of the trade union is to have an influence to change companies' structures, possible by regional mergers and way of privatization keeping under control its timing, circumstances, and conditions of employment in particular.

A good number of problems in the sector needs the strengthening of trade union activity, because this is the only way to represent workers' interests during privatization and restructuring, completing the necessary transformation without conflicts together with protection of employees' interests.

3.3 Regulated Employment or Regulated Individual Bargaining? Strategies of Post-Guild and Post-Socialist Trade Unions to Regulate Employment Relations

ANDRÁS TÓTH

This chapter investigates the role of collective agreements in regulating employment relations in the business sector. On the one hand, the form and quality of regulating employment relations is crucial for companies exposed to sharp and unrelenting competition. On the other hand employees have the least security in terms of employment and future prospects in the business sector.

In trade unions' understanding having a collective agreement equals with regulated employment and the collective protection of all employees. Without a collective agreement, employees are exposed to ruthless individual competition and bargaining; however, because of their labour market and work organisation situation their bargaining position is weak and thus cannot defend themselves against the powerful employers. Rather than question this "axiom", we will prove that today's Hungarian trade unions, rooted (or socialised) in the world of socialist enterprises, understand the regulation of employment relations very differently from classical trade unions – be them the social democrat trade unions that existed in Hungary from 1945 to 1947 or the present day Western European or American trade unions. Despite the complete change of the economic and legal environment, the interest representation strategy of trade unions – and maybe the needs of employees – continues to be shaped by the role they assumed in the socialist era. The problem is not only that trade unions are imprisoned in their own archaic and obsolete understanding of their roles but also that this "traditional" role inherited from socialist times perfectly fits the production and work organisation strategies of companies interested in flexibilising regulations. In most cases companies do not welcome trade unions, but acquiesce in their participating in regulating employment relations. Indeed, many companies do their best to marginalise trade unions and to make it impossible for union activists to work or to eliminate them altogether.

Firstly, the history of the regulation of employment relations through collective agreements will be briefly reviewed: how the workers' protection in the 19th century and under socialism impacts the regulating mechanisms of collective agreements. Then the reception of trade unions' present day activities by the company management will be scrutinised together with collective bargaining that largely shape industrial relations in Hungary.⁷⁷

Post-guild trade unions

The direct predecessors of the currently existing trade unions were born at the same time as the newly emerging free market economy disrupted the work or-

⁷⁷ The paper is based on the author's empirical research on the clothing, machine and vehicle manufacturing industries as well as on interviews and meetings with trade union members and activists in Hungary, Germany and Spain (see Tóth 2002).

ganisation of guilds. The first trade unions, the so called craft unions, tried to restore the traditional job security under the new circumstances. Their main objective was to ensure job security for skilled workers by regulating standards for admission into the trade and maintaining the traditional terms and conditions of work. The key idea underlying this objective was to protect employees who comply with the rules of the craft against free competition and the unforeseeable actions of the entrepreneur (owner).

From the very beginning trade unions sought to maintain the usual – and identical – terms and conditions of work and wage levels, standardised rules (the processes, tools, standards and pace) of work, regardless of the financial situation of the enterprises employing workers in the same craft. The first collective agreements were – to use the current terminology – *regional professional* multi-employer agreements.

This *post-guild* understanding of skilled worker and the *regional professional* multi-employer regulation set the direction for the development of trade unions and became part of the European, and perhaps even “global” trade union ethos. The standardisation of unionism was enhanced by the frequent migration within Europe and immigration overseas of apprentices. The crystallisation and extension of this view of skilled workers onto semi-skilled and unskilled factory workers was actively enhanced by the Second International. The main objective of trade unions in trying to achieve the regulation of employment relations was to maintain the autonomous and self-regulating worker community and restrict the company management’s discretionary jurisdiction over individual workers.

This image of the workman determined the bargaining strategies of trade unions against the rapidly spreading Fordist work organisation model in the first half of the 20th century. After gigantic fights and battles, a symbiosis was formed between the Fordist technology of work organisation aiming at hierarchical and well defined workplace positions and trade unions, similarly wanting rigid regulations. The main aim of collective agreements quickly spreading in the 20th century was to limit employers’ scope of action to the smallest possible. Their tools were the following:

- A rigid wage scale system in which exact and fixed wages are assigned to a matrix of vocational skills and number of years in employment. In this type of wage scale system exact and mandatory amounts of pay are set instead of a minimal wage which would only be a benchmark for setting the actually paid wage of each of the employees by the management or by individual bargaining.
- Exact regulation of fringe benefits and bonuses, which again does not leave much room for remunerating or penalising employees according to the quality of their work and attitudes.

- The system of job description which exactly specifies the content of each job.
- The system of hiring and firing as well as management's free job assignment provide the exact and transparent criteria of terminating the employment relation.⁷⁸
- Administrative tasks related to and implementation of collective agreements is carried out by bilateral bodies and internal fora.

With the technological changes, the Taylorist and Fordist work organisation which was the almost absolute regulatory model in the 50s and 60s, has been gradually replaced by a Japanese style management and organisational paradigm from the late 80s onwards. Despite the resistance of trade unions, all over the world company managements insist on replacing the rigid wage scale systems with individualised and flexible wages based on individual evaluation. And instead of assigning workers fragmented and hierarchically organised work regulated in job descriptions, companies demand versatile labour and flexibly defined job contents.⁷⁹

The "Japanisation" of the work organisation in the United States and later in Europe was a serious challenge to traditional interest representation strategies. Wages rewarding individual performance and attitude, flexible job assignment and production organisation have become crucial to competitiveness. Over the past two decades, employment relations have become more flexible and thus sectoral collective agreements lost some of their regulatory power. We agree with Western researchers that this process can be regarded as an "organised retreat" of trade unions hit by a dramatic loss of membership and by social and political depreciation (see for instance Visser 1994). Interest protection in the spirit of "make concessions and let the management flexibilise the labour market to be able to preserve jobs" leaves collective agreements the only function to limit the flexibility of local bargaining and maintain a minimum of solidarity. This modified interest representation philosophy is founded on the hope that with "better times to come" concessions might be taken back and by mobilising members and using the tools of industrial action trade unions will be able to realise the demands they could not agree on with company management.

The socialist trade union legacy

The introduction of socialism and command economy removed both trade unions' freedom and employers' autonomy. Trade unions were reorganised on the Stalinist model (Pető-Szakács 1988). The basic guideline was organising by sectors, and workplace trade unions belonged to the sectoral organisation of the industry in which the company was active. All employees had to be union members regardless of their hierarchical or professional position in the company. Trade unions were absorbed in the power structure of the par-

78 For instance, the typical collective agreement in the US stipulates the seniority rule, i.e. ties the order of redundancy to the years spent at the company. According to this principle, that employee working in a given group of jobs has to be laid off first who was hired last. If the company plans to hire some for that job within a certain period of time, first it has to contact the laid-off worker, and the order of hiring should follow the seniority principle too.

79 Not surprisingly, new production organisation procedures were developed in Japan, where a forced pace and state supported industrialisation started in the third part of the 19th century. The main actors in this process were not immigrant skilled workers but Japanese engineers and entrepreneurs who had studied Western European and American production organisation procedures and adapted them to local needs. That is why guild unionism never developed in Japan. Engineers building the first factories in Japan in the 19th century relied on professional and job flexibility (Aoki 1987).

ty state and their main responsibility was to ensure the meeting of planned production targets and implement social policy ideas. The regulatory role of collective agreements was taken over by legislation. Collective agreements concluded by workplace trade unions were nothing else than a collection of offerings of performance targets by employees. Employees' interest representation was driven underground (*Varga* 1994).

Collective bargaining to regulate the workplace differently than the standard legal provisions was made possible by the labour code enacted in 1967, as part of the "new economic mechanism". The new law helped company labour markets develop and the different bargaining positions of employees and employee groups within the company surface. Trade union activities were integrated in the formal and informal bargaining over plans as part of the negotiations within the company management. Employees' interest representation strategies and tactics concentrated on individual and small group informal bargaining (*Héthy* 1978; *Héthy-Makó* 1972, 1978; *Simonyi* 1978; *Kemény* 1990a), sometimes helped by the trade union, sometimes in opposition to it. However, trade unions' absorption into the power structure and the continued ban on self-organisation of employees were an impediment to the solidification and crystallisation of informal and occasional interest alliances. In the lack of market competition, requirements of skills and special knowledge softened. Depending on the products, technology, production tasks, internal labour markets and management intentions of the companies, the various local groups of workers were in key positions rather than important professional and occupational groups. Internal company labour markets were flooded with a surplus labour force, and even workers in the same profession or group had different strategies. With the relaxing of central wage scale systems, payments increasingly depended on the bargain with the direct superiors.

With this kind of employee interest strategy, which relied on informal, individual – sometimes group-level – bargaining and on paternalistic relations employees did not need "real trade unions" which, in the name of solidarity and equality, would try to prevent the unequal distribution of overtime work, bonuses and other forms of performance related supplementary earnings, but would limit overtime work out of safety considerations and curb competition between employees in the area of individual earnings. They could not even think about establishing autonomous trade unions to provide institutional protection against the decisions, "unfairness" and "favours" of the management. Trade unions were viewed negatively because they did not have the collective power to be the transmission between the employee and employer in their individual and particular relationship. That is why workers who had known the power and influence of trade unions before socialism thought that socialist trade unions played too little a role, while younger generations did not have any positive experience with interest protection at all (cf. research

by I. Kemény in 1968–1969 that could be published only more than twenty years later: *Kemény 1990a*).

Workplace trade unions became parts of the informal bargaining system permeating the command economy: on the one hand, they lobbied together with the company management for supports at the bureaucratic centres of economic administration and on the other hand became tools of bargaining within company over the distribution of company resources. Apart from the forms of wages and fringe benefits, workplace collective agreements did not regulate the wages of the individual employees or groups of employees. In fact, they were “plant level work schemes” devised jointly by unions and management and served as the “implementation manuals” of the Labour Code. Actual earnings depended on the individually set base wage and on the distribution of “well paying jobs” and overtime work.

Basically, socialist trade unions failed to meet the two main functions of the pre-war Hungarian and post-craft Western European trade unions: 1) restrict competition between employees in the same occupation or profession and across groups of employees in different professions, levelling out the terms and conditions of work, approximating wages and making wage differences permanent; and thereby 2) reduce the exposure of the individual employees and limit the free decision making of company management in the various issues affecting employees. Under the conditions of generalised labour shortage and a second economy, employees improved to perfection their labour market strategies based on individual and small group wage bargaining and on combining work in the first and in the second economy. Given the overriding importance of the success of individual strategies and the political constraints, the need for a trade union that translates individual and professional or occupational interests and violation of rights into an issue of institutional and collective interests and rights, one that works for standardized terms and conditions of work and efficiently curbs wage differences and supports solidarity in the world of work never arose.

Inherited trade union behaviour and current company strategies

The regime change opened up the road for real employee interest representation. The basis of the new trade union model – the bipartite regulation of the employment relation – was the workplace trade union. Trade unions inherited from the previous regime became independent and autonomous legal entities. They write their own statutes, plan their representation strategies and can decide independently over every important issue, including joining one sectoral trade union or trade union federation or another. Workplace trade unions decide themselves the agenda of negotiations with the company management and their demands in collective bargaining. The role of sectoral organisations and federation in local bargaining is limited to consultancy and

assistance. The role of the sectoral collective agreement, if there is one at all, is of a supplementary nature (in some sectors it specifies only the minimum conditions). Since the first and only wave of sectoral collective agreements in 1992, the group of employees covered by sectoral or sub-branch collective agreements has considerably shrunk (Tóth 1997a).

In contrast to developed market economies, the legacy and one of the main characteristics of the new system of industrial relations is that workplace trade unions concentrate their efforts on participation in the development and regulation of the terms and conditions of work and employment in the labour market of their own companies rather than developing standardised employment conditions in the (sectoral, professional and local) labour market outside the company.

Their approach to participation is largely defined by the nature of company wagescales, inherited from socialist times. The system specifies broad brackets of wage scales for large employee groups according to educational attainment: unskilled workers, semi-skilled workers and skilled workers. Under socialism, actual individual wages were determined only after a formal agreement with the trade union was made. Decision 42/1990 (VI. 12.) of the Constitutional Court repealing section 2 of the ministerial decree 48/1979 (XII. 1.) had an especially great impact on current practices. According to the decision, it is unconstitutional that personal base wages can be determined only with the trade union's agreement because this practice restricts the contractual freedom of the party to the work contract in individual issues related to the employment relation. This decision, made at the time of the regime change, suggests that the judiciary were unsure whose interests trade unions were supposed to represent and chose to protect the individual against the trade union – presumably on grounds of experience from an era when trade unions were part of company management rather than interest organisations (cf. Kollonay–Ladó 1996, pp. 115–116). Both the constitutional court decision and later the new Labour Code emphasised the contractual freedom of the employee and confirmed that in the course of collective bargaining it is the trade union's function to bargain for the best possible conditions and terms under which the employee and the employer can agree on actual wages and conditions of work. However, later it became clear that given the weak bargaining position of employees, the agreement in the legal sense authorised the company management to decide unilaterally in most cases.

The sharp difference between post-guild and post-socialist trade unions is their agenda of bargaining and agreeing with the company management and how the outcome of bargaining relates to the regulation of the broader regional, professional and sectoral labour market. The first type of trade unions wants to negotiate rigid wage scales to make the possibility of “partisan” bargain between the individual employee and employer the smallest possible.

Their goal is to develop a mechanic wage scale system that enhances solidarity and in which one employee's wage position can change only if everyone's changes. Post-socialist trade unions negotiate gross wage increases at the company, minimal wages for groups of employees (such as unskilled, semi-skilled etc.) or broad wage that specify lowest and highest wages, and potential extra wage raise possibilities for various areas, profession groups, organisational units or well defined groups of employees. The increase of individual wages, however, is decided by the management in the frames of an agreement and the actual wages of the individual or groups of employees continue – optimally – to depend on informal bargaining.

A research on the impact of the amendment of the Labour Code in 2001 on companies, in which the language of collective agreements was analysed, underpinned the finding that trade union bargaining produces a framework agreement in nature (*Neumann–Nacsá* 2004). As known, in several cases the Labour Code permits to deviate from its provisions not only through a collective agreement but also through “agreements between the parties”. In the majority of cases, individual work contracts are not different from the provision of the law in terms of working time and work schedule, which, however, does not mean that employers do not use the option of agreement between the parties. In practice, these are primarily agreements made verbally on an occasional basis therefore it is difficult to tell the line between an agreement and a demand or instruction by the boss that are unconditionally fulfilled by subordinates. The organisation of work at the workshop level largely counts on this kind of “agreement between the parties” both at small and large companies. A curious and special case is when the “agreement between the parties” is a deviation from both the law and the collective agreement. There are a good many collective agreements that include the possibility of deviation from the main rule “with the agreement of the employee”.

Interviews prove that trade union leaders have a special post-socialist view on trade union functions, regardless of which confederation they belong to, where their political sympathies lie, whether their companies are foreign owned green field investments or privatised successors of a one time socialist enterprise. In this understanding, the essential responsibility of the trade union is to develop a broad framework of conditions. While they fight for higher wages, what they bargain for is the increase of the gross total of wages at the company and/or the minimal wage increase. At the same time they accept the unlimited right of the company management to determine individual wage increases within the frames agreed on by the trade union.

In Hungarian trade unions' interpretation collectively regulated industrial relations mean the designing of basic frameworks within which there are broad possibilities for the management to make unilateral decisions based on the performance of individuals and groups of employees as well as to bargaining

informally with individuals and small groups – outside the trade union. This idea of interest protection seems to suit the company management interested in flexibilisation. Everyday experience suggests that the company management often regards even this flexible framework regulation as too rigid and tends to reject trade union demands on wage increases and on certain employment conditions. The possibility of developing and maintaining bilateral regulation through bargaining depends on the behaviour of the management, the restrictions imposed by market competition and/or by the company headquarters, the trade union's flexibility and/or ability to exercise pressure. It frequently happens that the company management wants to get rid of even the smallest of constraints and tries to marginalise trade unions, making operation impossible for activists and drive them altogether out of the company. Trade unions are often unable to defeat the management's efforts to unilaterally regulate the conditions of work and the employment relations.

While trade unions' only ambition seems to be to put in place framework conditions that serve the advantage of employees they leave employers a wide room of action to actually set the conditions and terms of employment for individual employees and engage in informal individual bargaining; this, however, inhibits the development of an automatic solidarity between employees. Just in contrast to the experience of Western European employees that the individual's situation can ameliorate only together with the situation of all, the Hungarian interest representation strategy makes it possible for the individual employee to improve his/her situation independently from others. The lack of automatic solidarity makes it very hard, if not impossible, for Hungarian trade unions to mobilise membership to back them up in confronting the company management. There is, however, another speciality of the Hungarian trade union strategy: to cooperate with the management as much as possible. This kind of workplace cooperation has its traditions: avoidance of open conflicts most often ensures the survival of trade unions even if meaningful bargaining with them is not a priority for company management. Curiously enough, the strategy of trying to improve framework conditions and protect the interests of small groups helps maintain cooperation even if the union is not too successful. After the negotiation round between the trade union and the management, there is a second round of bargaining between the employee and employer when final decisions are made. Unable to exercise any pressure, trade unions can only hope that under the circumstances of a shrinking labour market, companies will have to adopt internal strategies that rely on the loyalty of employees, and in order to reduce fluctuation they will involve trade unions in designing programs to better satisfy employees.

Conclusions

Post-guild and post socialist trade unions understand very different things by structured employment relations. Post-guild trade unions tried to restrict the room for individual informal bargaining between the employee and employer as much as possible by regulating employment conditions through setting rigid rules, wage tariffs and drafting job descriptions. The “Japanisation” of company management and work organisation meant a serious challenge for the traditional union strategy interest representation. Flexible organisation of production, flexible wages rewarding personal performance and attitudes as well as flexible work schedules have become crucial from the company’s competitiveness. As a result of company level pressure, the regulation of conditions of work and employment has become more flexible over the past two decades in several aspects and sectoral collective agreements have lost some of their regulatory power. Western researchers of industrial relations often describe this process as an “organised retreat” in the course of which trade unions make temporary (at least they hope) concessions to the employer, the underlying idea being that by letting the employer flexibilise the trade union will be able to preserve jobs. In this situation, the primary function of sectoral collective agreements is to limit the flexibility of local bargaining and maintain the minimum of automatic solidarity in order to preserve trade unions’ ability to carry through demands that could not be settled at the company level using the tools of mobilising membership and of industrial action.

For post-socialist Hungarian trade unions structured employment relations implied the regulation of fundamental frameworks, primarily through company level collective agreements, but at the same time leaving considerable freedom for the employer to make unilateral decisions based on the evaluation of individual and group performance and for individual and small group informal bargaining outside the trade union. This interest representation approach recognises the right of the company management to raise individual wages on the basis of a variety of performance indices within the frames agreed on by the trade union.

This trade union approach seemingly meets the flexibility ideas of company management as this kind of interest representation behaviour gives in to the company’s flexibility demands. The everyday experience, however, is that companies often find this flexible “framework regulation” approach too rigid and refuse trade unions’ demand to guarantee certain employment conditions. In fact, much depends on the personal behaviour of company managers, on external constraints – set by market competition and/or the company headquarters – i.e. on how much a bilateral regulation, founded on bargaining, can be developed or maintained. It happens quite often that the company management does not accept even the minimal constraints imposed by trade unions and

tries to marginalise existing trade unions and makes it impossible for union activists to operate and eventually drives them out of the company.

The steady loss of union membership in the business sector, however, suggests that trade unions might be wrong to hope that in a shrinking labour market companies will become interested in developing strategies based on the loyalty of employees and in order to reduce fluctuation they will involve trade unions in designing programs to increase employees' satisfaction.

4. LATEST DEVELOPMENTS IN WORK PLACE LEVEL REPRESENTATION

4.1 Employee Participation in the Hungarian Practice

BÉLA BENYÓ – LÁSZLÓ NEUMANN – MELINDA KELEMEN

The term “employee representation” may embrace a variety of industrial relations institutions and human-resource management techniques, the common feature of which is giving employees the chance to have a say in, or to control, the labour process, as well as the decision making of company management and, occasionally, the decision making of the owner. Accordingly, participation institutes range from shop-floor level participation up to involvement in the company decision-making mechanism and even to financial participation, including employee ownership. This subsection deals with only one type of institution, the one which has already been introduced in Hungary: the *works council* and its special version in the case of multinational companies: the *European Works Council (EWC)*.

Although there were earlier precedents of employee participation in Hungary, institutions similar to those common in developed market economies could only be established following the regime change. At that time the new Labour Code (Act XXII. of 1992) introduced works councils. The circumstances under which labour law was formed, and the legal-sociological contradictions of the new work-place level representation system, have been extensively discussed. (Kiss 1995; Prugberger 2002; Tóth 1997, 2000; Tóth–Ghellab 2003). According to the incumbent government in 1990–94, the presence of a representation channel, independent of trade union membership, and elected by every employee, was justified by the problems of emerging trade union pluralism and shrinking union density. Furthermore, the government, departing from the German model of industrial relations, wished to separate collective bargaining to be concluded at the sectoral level from work-place level representation exclusively practised by works councils. Since trade unions were strongly against the proposal which they perceived as jeopardising their role in the work-place, the compromise forged at the National Interest Reconciliation Council preserved the unions’ right to conclude collective agreements at company level, and trade unions – though in a limited form – were allowed to keep their participation rights which they had formally practised under the socialist regime.

The legal authorization of Hungarian works councils is limited compared to that of their German counterparts: co-determination is confined to company social welfare policy, in turn works councils are strongly tied to company trade unions due to the stipulations of the law. Trade unions are strongly motivated to ensure seats in the works councils for their own nominees, as their representativeness, i.e. the right to negotiate and conclude a collective agreement, is dependent on it. At the same time, the works council's co-determination right is restricted to the use of the "social fund" which is stipulated by the collective agreement concluded by the trade union. The election of the works council, though not necessarily its meaningful operation, is very important for the trade union in this system. Although the law obliges companies to set up works councils, there are no effective guarantees as to its enforcement. Thus at many work places where there is no trade union (characteristically in small-, and medium sized companies), works councils will also not be established.

As sectoral level collective agreements – contrary to the German model – have not become significantly powerful to set wages, hours, or terms and conditions of employment, a dual-channel system has evolved in which workplace level representation is duplicated. Therefore both employers and trade unions tend to consider works councils unnecessary institutions, if not harmful outright. At the same time the alternating governments, partly from political considerations, successively amended the law on workplace level representation: at one time the works council was given more power and even the right to conclude collective agreements, while at another time the rights of company trade unions were strengthened at the expense of works councils' rights.

This subsection, instead of criticizing the legal approach, analyzes the role of works councils on the basis of a survey. Then, drawing on a series of case studies, it describes the situation of European Works Councils following EU accession, when Hungarian delegates became full members in the already existing EWCs, or when these consultation bodies were required to be set up in multinational companies headquartered in Hungary.⁸⁰

Works Councils in company practice

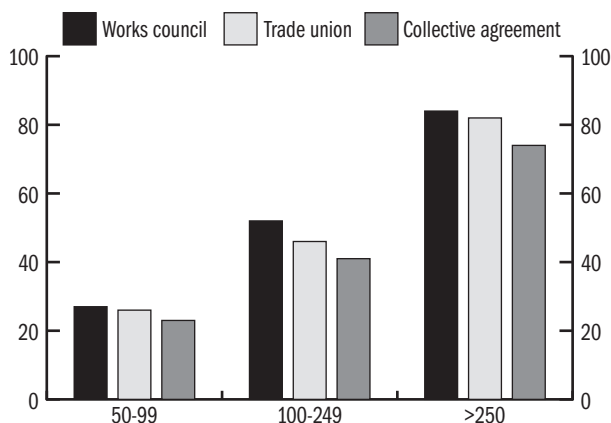
Over the decade following the establishment of the first works councils, the system of Hungarian work place level industrial relations has been significantly transformed. In 2003, at the time of our survey, about 49 per cent of companies with more than 50 employees had works councils. Previous international research revealed a number of factors that may affect participation through works councils, such as the company size. Experience shows that more efficient participation forms develop in companies with a larger workforce.

The Hungarian practice is in accord with this observation, moreover, works councils are more frequently found in larger companies than in smaller ones

80 The survey results are discussed in detail in Béla Benyó's PhD thesis: "The institution of employee participation: the state of the art of works councils in Hungary" (*Amunkavállalói részvétel intézménye: az üzemi tanácsok helyzete a mai Magyarországon*). The research on EWCs, supported by the European Commission, was carried out in the Czech Republic, Hungary and Poland, under the coordination of Wilke, Maack & Partner (WMP Unternehmensberatung, Hamburg), project leader: Eckhard Voss. The results presented in this study have not yet been published elsewhere.

(Figure 4.1.). At the same time, we can safely state that the penetration of works councils, trade unions and collective agreement significantly correlates with company size.

Figure 4.1: Frequency of works councils, trade unions and collective agreements in firms (breakdown by the number of employees, per cent)



It is also obvious that the emergence of participation institutions at a work place is also influenced by the form of ownership. The establishment of works councils is most common in state-owned firms, followed by local government-owned firms. The data available does not verify a previous assumption according to which foreign capital thwarts the spreading of works councils. Quite the contrary: based on the distribution of the origin of capital by country we can establish that fewer works councils operate in Hungarian-owned companies than in foreign-owned ones, although the difference is not significant: 52 per cent of the companies in exclusively foreign ownership have works councils, whereas the figure is only 46 per cent in the case of companies with exclusive Hungarian ownership. However, in the case of mixed ownership works councils can be found more frequently, and the proportions are only slightly different in the case of a foreign, or a Hungarian, majority in the ownership (59–58 per cent).

As far as the various factors are concerned, trade union presence is the most significant for the existence of Hungarian works councils: where there is no trade union at the workplace, there is also no works council (Figure 4.2.). With regard to the distribution of works councils, it has been proved that the correlation is fairly strong between the work place level presence of trade unions and works councils (level of significance: $p = 0.00$, $r^2 = 0.888$, $\beta = 0.942$) at both company level, as well as at sectoral level.

Figure 4.2: Distribution of works councils and trade unions in companies with over 50 employees



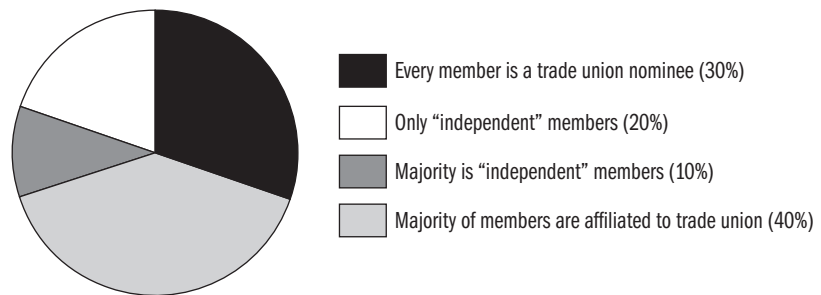
The reason for this is partly that both trade unions and works councils are more likely to be established in companies with more employees. Given the legal regulation on the representativeness of trade unions, it is not surprising that the more trade unions exist at a workplace, the more frequent are works councils. It is also notable that in the case of extreme union pluralism, with four or even more trade unions at a work-place, the frequency of works councils reaches 100 %.

In the beginning, some trade unions did not support the strengthening of the works councils' representation role and the broadening of their rights, claiming that these measures not only abridged the rights, but also curtailed the influence of trade unions. In the background there was obviously a Hungarian peculiarity at work: trade unions – regardless of their real influence – viewed works councils as rivals, a view which was also fuelled by a fear of legislation that might strengthen the works councils' rights. Today, however, the works councils' advantages have become apparent compared to the drawbacks they present: the value of works councils lies in the trade unions' access to additional information through the councils. Co-operation with the works council is not only an option but also a necessity. In the absence of trade union control, the new representation body may be a competitor to trade unions, works councils giving the employer the chance to use a legitimate alternative channel to unions. Trade union control over works councils is also underlined by studies on the composition of works councils. In 30 per cent of Hungarian works councils membership consists of only trade union members. In addition, 40 per cent of the councils are under a majority leadership of trade union members. In the remaining 30 per cent the majority, or all members, of works councils are independent of trade unions. (*Figure 4.3.*)

This interrelatedness and its acceptance are also supported by the fact that 60 per cent of all works council delegates answered negatively to our question about the independence of their works councils from trade unions. Further emphasis is given to the above statement by the fact that 85 per cent of the respondents hold that members delegated by trade unions give strength to

the body. The answers clearly show that influence is mainly exerted through members of works councils who were appointed by trade unions (35 %), then through personal overlaps (30 per cent), and finally, through the expertise and information that the trade union provides (15 per cent). Another sign of trade union dominance is that four times as many trade union leaders became presidents of works councils than the other way round, while respondents from trade unions hold that this happened five times as often. On top of this, works council members with a trade union affiliation are more active in the council's work than "independent" ones. All this confirms the fact that the role of trade unions members in works councils may strengthen local trade unions.

Figure 4.3: Distribution of works councils by nomination of members



It sometimes occurs in practice that trade unions compete for seats in the works councils, the negative effects of which are also supported by the opinions expressed by trade unionists. It can be established that the more trade unions operate at work place level, the more frequent are the conflicts between them. In the case of two trade unions, co-operation is more frequent than in the case of more trade unions, where the relation shifts to rivalry. Thus the unity or diversity of trade unions at the work-place level has significant effects on the institutionalization of workers representation.

Experience shows that a further consequence of the division between trade unions is that the employer, making use of the situation, more often chooses to negotiate with the works council more inclined to avoid conflict. This is supported by the observation that trade unions get into conflict with company management four times as often as works councils. The employer's preference is confirmed by the fact that works councils become better negotiation partners when they have fewer members with trade union affiliation.

Another fundamental feature of the operation of the Hungarian works council system is that works councils are simply unaware of their obligation as elected representatives to report to employees. Studies show that only one third of the employees display interest in the activity of the works councils. One possible reason for this is that feedback from works council meetings is

often missing. Informing employees is accidental, most often it is confined to works council members informing their immediate colleagues. An enquiry among employees prior to the meetings is very rare. At the same time it is obvious that works councils, as opposed to unions, do not have a well-established organizational structure to reach employees. Therefore it is natural that, where a trade union exists, the works council will use trade union channels for keeping in touch with employees. This will not help employees to distinguish between the roles of the trade union and the works council.

With regard to the documents provided for the works council meeting, 77 per cent of works council presidents reported that they do not receive satisfactory background materials. At the same time 75 per cent of works council members, 67 per cent of trade union leaders, and 84 per cent of the employers think that works councils receive documents in time. Holding back information usually happens with reference to business confidentiality, which is said to be frequent by 36 per cent of works council chairs. However, employers strive to ensure the rights prescribed in the law. It is not in their interest to act against the law, as the authorization of works councils is not strong enough to produce conflicts of interest. Close to one quarter of works council representatives claimed, that their employer often infringed upon their rights. It is the right to comment that is the most often abridged. It has to be noted too that the partners prefer to keep the conflict inside the company.

There are other factors affecting the success of the operation of works councils. Experience shows that active works councils can be recognized by the themes that dominate negotiations: usually the living and working conditions of employees. It is characteristic that social issues, in which the councils could have a decisive say, feature half as much in their consultations as financial matters, on which employers are “only” obliged to provide information. At the same time it can be assumed that in the majority of cases works councils do not have access to key information, therefore the cooperation of employers and works councils remains formal.

The practice of Hungarian works councils also highlights the need for stable financing and an independent budget in order to ensure a smooth operation for works councils. The reality is however quite different: only 19 per cent of works councils have a budget covering operational costs, as well as training and expert expenses. Reports state that 29 per cent of works councils do not have a say at all in planning the figures for these items in the company’s budget. In practice the financial independence of Hungarian representation institutions exists only in big companies, where a full-time status is ensured for the chairman.

The lack of an independent budget also places an obstacle to the training of works council members. Works councils and employers alike agree that the lack of training and skills is one of the biggest obstacles to performing tasks

in the works council. Deficiencies were detected mainly in legal, economic and financial matters, as well as in communication and negotiation skills. There is also a strong correlation between training and the success of working relations with the employer, as well as satisfaction with the rights. One explanation is that better trained employees are in a better position to use the opportunities laid down in the law and feel less fearful that legal conditions would hinder them in performing their tasks.

Despite the additional work that the establishment of a works council inflicts upon the employer, it has its advantages as well, since the presence of a new representation institution also extends room for manoeuvring. Employers often support the organizational independence of the works councils, since the emergence of a new representation channel is suitable to legitimate employers' decisions. Co-operation with the works council provides a new opportunity for those employers that are striving to avoid negotiations with the trade unions. This hypothesis seems to be supported by the marginal difference between the frequencies of works councils within foreign-, and Hungarian-owned workplaces (55 per cent and 52 per cent respectively). This is not the case with the presence of trade unions at the workplace level. In our survey we found that 75 per cent of Hungarian companies had trade union representation, while it was true only for 25 per cent of foreign businesses. Practice seems to confirm that employers not only support works councils as negotiating partners, but in most cases they even prefer them to trade unions.

In the majority of cases the employer can more easily find a common language with works councils. A possible explanation to this might be a greater loyalty of council members. If there are more "independent" representatives in the council, then it is more likely that the works council is more loyal, and at the same time, more dependent on the employer. In a situation where the employer often uses pressure tools to ensure decisions by the works councils which are preferable to the employer, then members tend to be more loyal toward the employer. With a trade union majority in the works council, the employer has less opportunity to exert pressure, therefore he will start negotiations with the trade union to bring about a resolution as soon as possible. Observations show that the smaller the works council, the greater loyalty it demonstrates toward the employer, therefore causing fewer problems for the employer.

Both employers and trade unions evaluate the role and success of works councils in the light of their own interests. It is of fundamental importance for the trade unions to keep their decisive role in the works councils. The majority of trade union leaders think that the works councils and trade unions "complement each other well" if there is a division of labour between them and in the event that they cooperate. Otherwise, they think, there is no need for the works council. For the employees, a multi-pillar representation sys-

tem, which leaves more space for manoeuvring, is more beneficial, and that is why they support “independent” works councils. Most employers consider cooperation with the works council useful, since the works council can act as a “buffer”, helping to minimize direct conflicts between employers and employees, as well as the acceptance of employer decisions. Trade unions and employers alike have a stake in the consolidation of the current situation, rather than the development of the institution. Works councils balance between these two forces but accept trade union influence for the sake of better negotiating positions.

European Works Councils following Hungary’s accession to the European Union

As is well-known, the 94/45 (EC) *Directive on EWCs* was passed in 1994 following a preparatory work of several decades, which was not lacking in political twists and turns. (Tóth 1999). As to its political goals, the Directive is similar to earlier recommendations by various international organizations (ILO, OECD) concerning the “conduct” of multinational companies, which are intended to mitigate the harmful labour consequences of globalization (the intense competition of regulation regimes and the corollary deterioration of working conditions, the relocation of work places, etc.). The EU Directive, however, went further: instead of creating another code of ethics, it laid down the legal frameworks of a brand new transnational representation institution. With the help of this a new institution, similar to the customary works councils on continental Europe, was built into the preparatory phase of global strategic decision-making in the headquarters of international companies. It also gave employees, working in the subsidiaries in various countries, rights on information and consultation. Former EU member states were obliged to transpose the Directive by September 22, 1996. The transitional regulation, however, allowed for the recognition of the already existing international forums with similar functions as EWCs, and made possible the institutionalization of the system of information and consultation, instead of the establishment of a new representation channel. It is important that – with regard to the different compositions of works councils in each country and the difference in their rights – the Directive does not define in detail the rules on the setting up, the composition and the operation of works councils. These are determined individually for every company in preparation for the EWC in the course of negotiations between company management and a *special negotiating body* elected in establishments in the various countries.

Prior to Hungary joining the EU, representatives of employees, working in Hungarian plants of Europe-based multinational companies, could take part in sessions only if the Western European EWC “voluntarily” invited them (Neumann 1999). According to the 2002 data of the European Trade Union

Institute (ETUI), there were 114 multinational companies with Hungarian sites where European works councils were set up. It was, however, only in 23 cases that the representatives of Hungarian employees were invited to the EWC meeting, in which they could participate as “observers”.

New member states, including Hungary, were required to adopt national laws, measures, and possibly collective agreements, ensuring the implementation of the Directive, by the time of their accession. Following a consultation held at the National Interest Reconciliation Council, Act XXI of 2003, the transposition of the Directive came into force at the same time as Hungary’s EU accession. The law follows the European Directive in regulating the establishment of an EWC operating beside a Hungarian headquarters of a multinational company. The scope of the Hungarian transposition is practically restricted to the following questions: the composition and operation of the special negotiating body in the event that the company headquarters are in Hungary; the selection method of the members of the special negotiating body and of the EWC, representing Hungarian employees; confidentiality issues; the protection of Hungarian representatives; the sanctioning of unlawful conduct; and, in the situation where no EWC is set up, the equivalent rules to be used on access to information and on consultation. The Hungarian regulations follow the German example in the first place, which is why the most problematic issues of the regulations are the selection of the members of the EWC and the Special Negotiating Body, representing Hungarian employees. According to the law, their appointment lies exclusively with the works council, or, wherever it exists, the *central works council*. In the absence of a works council, the law orders the selection of the members through a direct election process. The Hungarian workplace representation system, however, is a dual-channel representation system, as opposed to the German one: beside the works councils, there are also company trade unions operating in the work places, which are very often more influential and better known than works councils. In the case of a dual-channel representation system, the laws make it possible for both bodies to have a say in the selection of the members, and direct election is only prescribed if none of the two types of representation systems operates in the given work place. Another problematic area of the transposition is the election of representatives in the situation where the given multinational company has several subsidiaries in Hungary. In this case the law stipulates the cooperation of the (central) works councils of the individual companies and their appointed delegates. It does not stipulate, however, that all employees, working in every subsidiary of the company, must be provided with representation, and it does not lay down – contrary to the German law – which central works council is responsible for convening the joint body (Tóth–Neumann 2003; Prugberger 2003).

Hungary's EU accession therefore inflicted two kinds of duties on the top management and representation system of multinational companies: on the one hand, a new institution had to be established within the few multinational companies, headquartered in Hungary, in the situation where the company has sites in at least two EU member states with 100 employees as a minimum in each state. On the other hand, Hungarian employee representatives have to be ensured and, according to the law, have to be delegated in those foreign companies headquartered outside Hungary, where an EWC had already existed, or in those that reach the above quoted threshold as a result of the enlargement of the EU. The latter one is obviously a great challenge for works councils operating in foreign company headquarters, or for EWCs to be established as well, since they have to reshape their internal regulations so that they are able to include members from the new member states who have also become full members. It has to be noted, however, that, similar to the law on the setting up of Hungarian works councils, the failure to implement the Directive on EWCs cannot really be sanctioned either (that is the reason why only half of the Western European companies under the provisions of the Directive set up EWCs, or a consultation system equivalent to that). Moreover, there is no timeline, set by the EU, for carrying out the duties listed here, arising from EU Accession.

We looked at company case studies to see how the workplace representation channels of companies in former and new member states, which are under the provisions of the Directive, responded to the challenge of EU enlargement. In our sample two of the ten companies had a stable financial background and a workforce which had their headquarters in Hungary: MOL and General Electric.⁸¹ The main characteristics and indicators for industrial relations of these companies are demonstrated on *Table 4.1*.

Table 4.1: Company sample of EWC research

Sector	Number of employees in Hungary	Country of headquarter (owner)	Greenfield?	TU	Works Council	Collective agreement
Machine tool industry	400	France	No	+	+	+
Car components	1 600	Germany	Yes	-	+	-
Pharmaceuticals	2 200	France	No	++	+	++
Electronics	5 000	Finland	Yes	+	+	-
Car components	1 200	Germany	Yes	+	+	-
Oil and gas	11 800	Hungary	No	++	+	+
Electric	14 000	Hungary (USA)	No	++	+	+
Rubber	1 900	France	No	++	+	++
Electronics	3 300	Finland	Yes	++	+	+
Car components	550	Germany	No	+	+	-

++: the trade union has a fairly strong influence / joint occurrence of sectorial and company collective agreement

+: exists

-: does not exist

81 Altogether 10 case studies were made in the last months of 2004, partly in the machine-, partly in the chemical industry. From the research material only the findings on Hungarian industrial relations, as well as the establishment and operation of EWCs, are presented in this paper.

As trade union federations helped with the selection of companies for the sample, it is likely that we got in touch with companies with a trade union stronger than the average, and with more developed industrial relations. Among the trade union leaders there were both cadres “inherited” from the previous state owned socialist company, as well as enthusiastic young people mainly from greenfield-investments, who, enjoying the support of the sectoral trade union, stepped up as fierce representatives of interests. It is notable that, even in such a sample, no collective agreement could be concluded in four out of the ten companies, while sectoral agreements were in force in only two cases. The dominance of the trade union prevailed in every works council, except of course in the case of the only company in the sample without one. The two organizations formed a symbiotic relationship, as it were, and in the case of one company, this close relationship was attributed, with some pride, to a deliberate trade union policy. Following the EU accession, the delegation of new full-members into EWCs operating beside the company headquarters of the parent company, was smoother in companies that previously had Hungarian observers. In this case the problem arose from the necessity to alter the distribution of EWC seats among countries, which resulted in the receding of the smaller Western European sites. International co-operation of sectoral trade unions could be of help in organizing the EWC representation in the case of companies where this was a novelty and where Hungarian representation bodies did not even have a connection with the respective institutions of the parent company and mobilization of the interest representation channels would have been the responsibility of the Hungarian managers.⁸²

82 For instance, the Bavarian section of IG Metall made an attempt to stage a joint action with the Hungarian Vasasszakszervezet to promote cooperation among the respective company level representation bodies. Despite such efforts, a fierce conflict can still break out between Eastern and Western representatives concerning the distribution of seats, influencing the decision making on the relocation of jobs was at stake. (See the case study in the Annex) There was only one case, in which the company was supposed to establish an EWC due to the EU enlargement, but it did not happen, as in the meantime the company decided to transform itself into a European Company (SE), which requires a completely different institutional setup for employee representation at multinational level.

Knowing the problems concerning the transposition of EU regulations into the Hungarian legal system, it is no surprise that in practice the delegation of representatives does not follow the logic of the legal regulations. Although the criterion that members must be appointed by the works council or the central works council was formally met almost everywhere, there was a general effort to ensure a stronger legitimacy for the representatives of Hungarian employees. It is characteristic that several representation bodies, in the same way as the company management in many cases, misinterpreted the text, as a result of which they were convinced that delegates must be elected directly by the employees (the law stipulates such an election method only in the situation where there is no (central) works council at the given work place). Trade union leaders also played an active role in the selection process either directly, or through their members in the works council. It is hardly a surprise that in the case of each larger company, the delegated EWC members are from the most influential/strongest trade union leaders, at least in part. (*Table 4.2.*), It was in exceptional cases that language skills or economic expertise were crucial criteria.

Table 4.2: Ways of representation in European Works Councils of Hungarian employees

Sector	Year of the establishment of European Works Councils	When were the Hungarian delegates invited?	The Hungarian delegate's status before 2004	Did he/she have full membership?	Selection method in Hungary
Machine building	2000	2004	-	Yes	Voting for works council nominees
Car components	1998	2000	Observer	In progress	Delegation of works councils members
Pharmacy	Before 1996 *	2002	Observer	In progress	Joint decision of the trade union and works council
Electronics	No data	2003	Observer	Yes	Delegation of works councils members
Car components works council	1996	2003	No participation	Yes	Joint decision of trade union and
Oil and gas	2004	2004	-	Yes	Delegation of central works council member
Electric	2004	2004	-	Yes	Delegation of central works council member
Rubber	1999	2002	Observer	Yes	Decision of central works council
Electronics	Only SNB established	-	-	-	-
Car components	No data*	2002	-	-	Delegation of works council member

* Information and consultation forum/method equivalent to European works council.

At the same time the representation of employees working in smaller subsidiaries of the parent company, or in ones without a trade union or workers council, remained unresolved. Meanwhile representatives of the largest sites were duly delegated and received by the parent company while the attempt to involve employees from other divisions in the nomination of EWC members did not always succeed. The reason behind this is practically the lack of horizontal connection between the companies in Hungary.⁸³ Interestingly enough, this deficiency was not really dealt with by EWCs of the parent company, even though thorough investigations preceded the reception of Eastern European nominees. It is true though that these investigations in the case of the “Easterners” are motivated by the suspicion that in reality they might not be employee representatives but nominees or members of the management, as was often the case, evidenced by our research abroad.

Hungarian representatives delegated to the EWCs had mixed impressions. In most cases they were satisfied with technical conditions and with the financial support from the parent company. Occasionally they encountered deficiencies too (such as the lack of a translation service for them), or felt that they experienced offensive treatment from the incumbent members. Among more serious problems were listed the rigid regulations, the overly formal way of information provision and the frequent reference to business confidentiality. Representatives thought that despite ample reporting, they received little new information at the sessions, and felt that the bodies had a minor influence on strategic decisions such as shut-down or the relocation of plants. We

83 The German firm in the machine building industry was an extreme example of this: it established 11 subsidiaries in 6 different settlements, and only the works council at the biggest plant could delegate a representative to the EWC.

can assume, however, that Hungarian representatives are not always open to relevant complaints by their Western colleagues, since in the case of most companies, and with the company relocations in progress, Hungary seems to be in a winning position. The possibility to build connections, and to become acquainted with the living and working conditions of their colleagues abroad, were mentioned as a positive aspect of membership in the EWC.

MOL was the only real Hungarian multinational company in our sample, where the EWC was set up in June 2004 following a seven-month preparatory period. MOL's industrial relations are characterized by a close co-operation between representation bodies and company management: there are three representative trade unions and four works councils within the Hungarian parent company, furthermore there is a collective agreement in force which provides significant benefits for employees. The composition of the EWC was determined in the agreement of MOL and the Special Negotiating Body, according to which there are eighteen full members and two observers in the council. Thus, in addition to the six Hungarian and three Slovak members, every EU-country with MOL subsidiaries can send representatives; while Croatia and Romania are entitled to send observers. Future EWC members were elected by voting in advance as well as at the extended session of MOL's central works council; in Slovakia it was the Chemists' Trade Union that organized nominations and the election. In the other EU countries delegates were elected directly by the employees at the written request of the central management. According to the agreement the EWC was created for three years. The by-law prescribes at least one meeting per year at a previously defined time and with a previously defined agenda agreed a month prior to the planned date of the meeting, with the coordination of the president of the EWC. The chairman of the EWC became the chairman for the Hungarian central works council and the largest representative trade union as well.

In conclusion, the results of our research seem to coincide with those concerning Hungarian works councils: here too trade union support is key, as well as solidarity both within local companies and among international trade unions, which is able to mitigate the conflicts arising from economic competition among workers employed by the multinational company in various countries. The experience and the network that Hungarian representatives can build through participation in the EWC are undoubtedly useful and perhaps the skills gained will also sooner or later be utilized in domestic consultation processes.

Appendix: European Works Council in GE Hungary Ltd.

GE has integrated Tungsram in 1989 through privatisation. Tungsram, one of the largest industrial companies in Hungary with several plants in Budapest and in the countryside, produced bulb- and vacuum technique machines. The company was called GE Lighting until 2002, but its activity field is wider thanks to buying companies and green field investment.

During recent years GE carried out a significant global organizational re-alignment. At first, GE relocated the European centre of GE Lighting from London to Budapest in 2002, and then on 1st January 2004, due to a merger with Power Controls business divisions, a new company was established with the name "Consumer & Industrial". GE Consumer & Industrial produces and distributes low-voltage home appliances and integrated industrial equipment systems, lighting products and home electronics. As of 2004, Budapest gives a home to the European, Middle-Eastern, Indian and African centres of GE Consumer & Industrial (sc. EMEA region). The company employs nearly 75,000 people globally, of which 22,000 people are employed in Europe, most of them (14,000) working in Hungary.

At present practically all the Hungarian GE companies are registered as one corporation, under the name GE Hungary Ltd. It belongs to the global GE company and includes business units which belong to 4 different production divisions and 1 financial division of GE. These are as follows: GE Consumer & Industrial (which produces and distributes low-voltage home appliances and integrated industrial equipment systems, lighting products and home electronics), GE Transportation (aircraft engine services), GE Energy (manufacturing power systems) and GE Healthcare (manufacturing medical instruments). The relevant financial division is called GE Hungary European Operation Services. At the same time, Budapest Bank which has 1.600 employees, and which is owned by GE Consumer Finance, is not part of GE Hungary Rt.

There are works councils and mostly trade unions everywhere at the companies of GE Hungary Ltd. Within the GE Lighting units, there are 3 trade unions, 2 out of 3 are representative organizations (Tungsram Dolgozók Független Szakszervezete – TDFSZ and Nagykanizsai Fényforrásgyár Demokratikus Szakszervezete). In the case of certain green-

field invested manufactory (e.g. Ózd) there are no trade unions at all. The union density is about 70 per cent at the company level. On the national level all the three trade unions belong to the LIGA Trade Union. However, none of them is a member of EMF, the sectorial representation of interests of the metal sector at the European level.

Works councils exist from 1993 at GE. In the case of units within the Consumer & Industrial division it means practically 15 local WCs, on the top there is a 13-strong CWC, the members of which come from the works council membership of the previous Tungsram companies. As the 13 strong CWC does not cover every area of the newly established division, and since there is no representative from every manufactory, its enlargement is therefore one of the actual tasks of the CWC. The next election of works council's members was due in November, 2004.

There has always been a Collective Agreement in the history of GE, which is discussed and agreed upon by the management and the above-mentioned 3 trade unions. (As GE Hungary Ltd. is only one company legally, the representation of interests of other business divisions with no trade union, and that of the company's workers, is provided by the representative trade unions regardless of the relatively significant independence of GE business divisions.) The CA has 3 levels. Although, the general part of the CA is relevant to every GE employee, it does not contain details on wages and social allowances. There is a separate "Appendix for Divisions" referring to the former GE Lighting and Power Controls. Beside this, there are also appendixes for factories and enclosures with regard to this business division.

Based on the opinion of the parties concerned, the relationship between trade union and management is regulated and is correct. In addition, there exists a reconciliation annual work plan as well. Bearing in mind that wages are raised from the 1 January of each year wage negotiations start in November and last for a few weeks. Wage bargaining refers to the percentage of increase of the basic salary.

Centrally the CWC and the trade unions operate as a dual-channel system, in compliance with the law, although the CWC and trade unions sometimes jointly negotiate with the management.

The trade union is more accepted by the majority of employers as a “real” interest representation organization. Where a decision is called for even the management takes into prior consideration the trade union’s reaction.

Before the re-organization in 2003 there was no European works council in GE and the establishment of GE EWC was determined by the ongoing reorganization of GE’s certain European business units and the upcoming accession of New Member States (e.g. Poland and Hungary, where GE companies did operate) on May 1, 2004. In the beginning the establishment of EWC was initiated by the “Western-European” trade unions of the former Power Controls division, in 2003. This initiative was declined by the management of the company, but then the management changed its mind. The German-born European HR Manager was eager to set up a European consultation panel. The negotiations on setting up the EWC started between the Power Controls (which was then headquartered in Barcelona, Spain) and a special negotiating body which represented the trade unions of the “old” Member States.

Meanwhile the above-mentioned HR manager became the HR manager of the new Consumer & Industrial divisions, and the ongoing negotiations concerned a totally new division. At the same time, the Hungarian and Polish employee representatives were left out of negotiations, very likely because these countries were not EU members at the time. The new EWC was established in Barcelona on the last working day before the EU enlargement, the deed of foundation dated on Friday, April 28, 2004. Since the headquarters of the company was in Barcelona at the time and the EWC was established in Spain the relevant Spanish regulation was authoritative for the establishment, the composition and the operation of EWC. The GE EWC has been established by the delegates of the following 7 countries: Spain, Portugal, France, Belgium, the Netherlands, Germany, Italy, and the UK. A delegate of an Italian GE plant became the president of the EWC. According to the “Agreement” signed by the SNB, there is one delegate from every country, and additional delegates can be appointed from those countries where 50, or 25 per cent, of the total number of employees are. Based on this, employees of the above mentioned member states delegated 1–1 person to the EWC. With regard

to new Member States the rule is that they get 2 seats if at least 25 per cent of the total workforce is employed in the new Member States, while the employees are allowed to delegate 3 persons if at least 50 per cent of the total workforce is employed in them. According to this, the current EWC is 11 strong. Every country delegates 1 person, except Hungary, which the “Agreement” enables to delegate 3 persons to the body. By right of the Agreement the EWC holds a meeting once a year, but the agreement does not specify the place.

Already prior to accession to the EU the Hungarian trade union notified the management of its intention to start the procedures to establish an EWC after 1st May, 2004. As we pointed out earlier, the TDFSZ had no idea that in the meantime the trade unions in the old Member States had already begun the setting up of an EWC. They did not receive any information whatsoever from the partner trade unions concerning this.

Therefore it came as a huge surprise to the representatives of Hungarian employees that the Italian president of the EWC offered 3 seats in the council for Hungarian delegates and invited them to the first meeting planned to be held in Budapest, June, 2004. The EWC was established so that the Hungarian and Polish trade unions (which represent 2/3 of the employees of the division) were totally left out of the preparatory negotiations. The second reason for their astonishment was that the establishment of the EWC took place right on the last working day before Poland and Hungary joined the EU. On top of all this, the European centre for Consumer and Industrial moved from Barcelona to Budapest on April, 28, 2004. The representatives of Hungarian employees claimed that, with the European headquarters of the company being in Budapest, the EWC should have been established with the involvement of the representatives of Hungarian and Polish employees, and in compliance with Hungarian law. It should be pointed out here that according to the Hungarian transposition law, 5 seats should be offered for the representatives of Hungarian employees.

After the trade unions and the Hungarian CWC became aware of the existence of the EWC, the Hungarian members were delegated according to the law, on July 22. The central works council, at a joint meeting with delegates from other divisions, nominated 3

persons out of its own members. One delegate is the president of the CWC, and the other two are members of the two representative trade unions.

The representatives of Hungarian employees drafted a memorandum for the EWC meeting on 8–10 October, addressing the employee side of the EWC. In this memo they called for an EWC initiative to modify the agreement concluded by the SNB. The central point of the modification was the increase of the number of Hungarian representatives in the EWC to 5 during 2005. Nevertheless, the proposal was rejected by the president of the EWC at the meetings of the employee party, on the grounds that the modification would not be reasonable before 2007, i.e. as long as the mandate of the current EWC, and Agreement, are in effect. However the representatives of Hungarian employees announced that the EWC president's standpoint is not acceptable to them and they presented their proposal of modification to the management at the official meeting of the EWC on October 8, 2004.

At the plenary meeting, the delegates first listened to the presentation of the Chief Executive of the company about the strategic plans of the company, the expected changes in numbers employed, and about organizational changes. (Since all the information quoted here has been classified as confidential on the basis of the Agreement, the information from the EWC meetings will not come to the employees' knowledge).

Following this, the representatives of the Hungarian employees officially presented their request of modification of the EWC Agreement. On behalf of the management, the chief executive of the company stated his case in relation to the modification, explaining that if the employee side of the EWC agrees on this issue, the management will not oppose the modification.

After the EWC plenary meeting, another employee conciliation meeting was held, but the points of view still differed. At the meeting the French, Portuguese, Spanish, Belgian, and Italian representatives of employees unanimously refused the Hungarian proposal, while the Polish supported it. Other members of the EWC abstained.

At the end of the meeting the president of the EWC came forward with a conciliatory proposal offering

an additional seat for the Hungarians, which the representatives of Hungarian employees rejected. Finally, with the excuse of the absence of the German trade union and an EMF expert, the discussion of the Hungarian proposal for the modification of EWC composition was deferred until the next meeting in December.

Eventually, in December, 2004, the story took a positive turn. The Hungarian representatives of interests received a letter from the Italian president of the EWC, offering the following: five seats will be allocated for delegates of Hungarian representatives and an additional seat will be offered in the invariably 3-strong secretariats. At the same time the president also offered 1 place for the Hungarians in the delegation appointed to re-negotiate the relevant point of the contract. The Hungarian trade union and CWC regarded the offer as a fair solution and it is expected to be officially accepted at the next meeting of the European works council.

One explanation for the conflicts about the distribution of seats among new and old Member States might be that the merger of the 3 divisions may mark the beginning of a European-scale reorganization process. This process is likely to bring along the relocation of further workplaces to the new Member States. In this light it is understandable that the representatives of those workplaces that are jeopardized wish to ensure that their words are decisive in the EWC in the coming years. At the same time, according to the Hungarian representatives' standpoint, the real danger for the European workplaces is China. As Hungary is the European country with the most significant mass production, therefore Hungary calls for a representation of appropriate volume in order to be able to defend the jobs of Hungarian employees.

Preventing the conflict regarding the number of the Hungarian delegates would have required the active involvement of the EMF, even though the Hungarian trade unions of GE are not yet members of the European trade federation.

(The source of the above information on the conflict related to the European works council is the Hungarian employee representatives. Owing to the research methodology, we were not able to get in touch directly with those members of the European works council representing other countries. However, we used the interviews of Guglielmo Meardi and András Tóth which were conducted for another research.)

4.2 Informal Wage and Performance Bargaining and Changes in Human Resources Management in Hungarian Companies

LAJOS BÓDIS

Introduction

While in developed market economies one of the traditional strengths of large companies is predictable operation, they currently face a new challenge: improve their adaptability to the changing economic environment. To be able to do so they encourage their employees' versatility and innovation but at the same time introduce new forms of control to reduce employees' possibilities of monopolising skills – and the resulting greater bargaining power (*Baudry* 1998). In contrast, socialist enterprises worked very flexibly but unpredictably. Some of the workers learnt to do several tasks, were active in the field of technological innovations and were highly interested in organisational matters. In fact, the enterprises could not do without these workers for under the conditions of shortage economy the normal conditions of work were often missing and the management bothered much less than their Western counterparts to harmonise the various activities at a high cost. At socialist enterprises, the participants of the wage and performance bargain were workers in key position with firm specific knowledge and their direct superiors rather than the trade union and the top management (*Kemény* 1972, 1990*b*, 1990*c*; *Héthy–Makó*, 1972, 1978; *Fazekas* 1982; *Köllő* 1982; *Kertesi–Szirácski* 1983; *Neumann* 1988; *Stark* 1988; *Gábor R.* 1997).

Western management ideas introduced in the 90s in Hungary mostly meant centralising bureaucratic measures designed to strengthen management control, which was quite unusual for employees. At the same time, employees' versatility, knowledge in broad areas of company activities and interest in company affairs developed under the dire necessities of the socialist enterprise are valuable assets for post-socialist companies, too. Western-style flexibilisation and centralisation in Hungarian companies in the 90s thus are not mutually exclusive human resources management philosophies. Post-socialist companies had to take "one step back" to be able to operate more predictably and reliably. This was a precondition to apply modern management methods that encourage and make use of the versatile experience and initiative of employees, which will then make it possible for Hungarian enterprises to take as many as "two steps forward" in flexibilising.⁸⁴ In other words, what one time socialist enterprises and current work organisation share is the encouragement of employee initiative and what they are different in is the efficiency of control.

Are Hungarian employees willing to initiate and assume responsibility if the management systematically tries to limit bargaining? If innovations were introduced without the overhaul of the organisations and fully understanding the interrelations of management procedures, could it happen that the em-

84 A similar dual learning process is found in mixed ownership companies in Hungary *Szabó–Kocsis* (2003). Without careful research, however, currently this can only be regarded as a possibility.

ployers' costs considerably grew while employees could retain their bargaining power? Or, through a trial and error approach and careful evaluation of experience, could some of the companies create a balance between employee autonomy and employer control that suits both parties and is equally different both from the legacy of the socialist organisation and Western models? While in the 70s and 80s several case studies were made at companies, today's research efforts have largely neglected these issues and have failed to answer any of these questions.⁸⁵

Firstly, we will present the main goals and procedures of human resources management at modern large companies that are a crucial factor in industrial relations and create the frames of the workplace wage and performance bargaining; then we will attempt to draw conclusions on the basis of sporadic empirical research and outline a conceptual framework to interpret the interrelations of innovations in the work organisation and workplace bargaining.

*The main goals of human resources management at the modern large company*⁸⁶

Human resources management at large companies in developed market economies primarily serves the predictability of operations and therefore mostly relies on impersonal procedures. At the same time, however, over the past one and a half or two decades a somewhat contradicting requirement has become increasingly important: adaptation to the changes of the economic environment and increasing organisational flexibility (OECD 1999).

Job design. A job is a specific collection of tasks, responsibilities and decision making competence that uniformly applies to a group of employees in a given organisation. Management efficiency largely depends on an exact description of the content of jobs designed impersonally and the systematic monitoring of spontaneous changes. Individual differences are important mostly at the beginning of the employment relationship, at the time of selecting the candidate who fits the best the specified requirements. At the same time, over the past fifteen or twenty years, the differences between employees in terms of performance and needs have become more important in employers' decisions on reward and promotion. The kind of human resources management which takes into consideration the potentially exploitable elements of human capital tries to harmonise reliability guaranteed through job requirements which apply to all and flexibility provided by developing and exploiting individual capabilities. Job related procedures, however, continue to play a crucial role in large Western companies.

Organisations with heavily specialised and exactly delineated jobs can produce not too complex products on a mass scale cheaply, predictably and with permanent quality parameters. In a changing environment – with frequent switches between small and medium series production – their operation can

85 The meagre analytical literature on the division of labour in the 1990s appears to have abandoned the field of wage and performance bargaining that earlier had been widely researched. One of the few exceptions is the analysis by Fazekas and Köllő (1998), which examines – primarily with statistical methods – the sources of income generated after the change of the regime at companies that had been researched two decades before (Fazekas 1982; Köllő 1982); and a case study by Bódis (2003), based primarily on interviews and observation of the rules of distributing the organisation's income.

86 There are hardly any empirical studies or deep analytical case studies on the penetration and impact of modern human resources management procedures in Hungary (Bokor 2000; Gelei 2002; Takács 2000). Questionnaire surveys are usually made on a small and not random sample and provide little information on issues that influence informal workplace bargaining. However, several research projects have concentrated on the organisational position of human resources managers and on the recognition of this professional field. Hungarian research efforts in the area of company finances using representative samples focus only on performance assessment of the several methods of human resources management (Arccal a... 1999, Fókuszban a... 2004).

be halting (*Aoki* 1984). In this situation, typical nowadays, one of the most important tasks of human resources management is to increase employees' mobility across jobs. Case studies on socialist plants highlighted on the one hand the imperfections in technology and in the description of tasks and on the other hand the versatility and bargaining power of elite workers. A questionnaire survey in the mid 90s, however, found that the jobs at two electronics companies were overspecialised by international standards (*Makó–Novoszáth–Veréb* 1998). Similarly, rigid division of labour resulting in inflexibility is described in a case study on a sewing mill, caused by an incompetent management and employees' efforts to secure positions in the organisation; in other words: by the management wanting to save the costs of coordinating production and by employees' influence activities (*Bódis* 2003).

Adaptation can be enhanced through the flexible adjusting of resources to the current needs of production or through the improvement of the adaptability of labour staying with the company in the long term. The first may involve a temporary or permanent cut in staff (and thereby of wage costs), reorganising work time, replacing work contracts with definite period contracts, using external suppliers, relocating production into a lower wage region and reducing training costs. The second involves the expansion of jobs, simplifying the organisational hierarchy, forecasting technological changes and the continuous retraining and further training of employees. Case studies on nine companies, different in size and activities, around Dunaújváros have revealed that the subject of informal workplace bargains most often is flexible adaptation, organising working time and division of tasks related to absence and peak production, and rarely training issues (*Makó–Simonyi* 2003b).

Greater mobility of employees across jobs is best implemented if the human resources management considers all of the various potentially exploitable elements of human capital that are needed to carry out the current tasks rather than if it gives job descriptions. In this concept, the starting point is that a product or service is the outcome not of a specific collection of tasks but the combination of various elements of human capital. The knowledge, expertise, abilities and skills of employees can be used in specific activities that are very different from each other. Job requirements do not depend only on technical and technological characteristics but also on how the total human capital needed to products and services is distributed among the various jobs. If the company is able to define on the one hand its human capital demand and on the other hand the human capital of the individual employees, it can create the channels of internal mobility that cut across the traditional career paths.

This model is founded on the detailed but not comprehensive description of task and requirements related to the job. Most experts in Hungary agree that companies pay much less attention that would be necessary to draft and regularly review job descriptions.⁸⁷ It is possible to manage human resources

87 See *Nemeskéri* (1999), (2003b); about public offices less exposed to changes in management methods *Bódis–Nagy* (2005), *Nemeskéri* (2003a), *Barta* (2003). Managers of companies participating in questionnaire surveys report the situation to be much better than what is experienced by experts and researchers. Four fifths of the companies in the sample of one of the research projects prepare job descriptions, two thirds of them not only formally but in a way that provides a proper foundation for several human management tasks (*Karoliny–Farkas–László* 2003). Similar shares were found in another research based on a sample of organisations in the competitive sphere applying performance assessment (*Karoliny* 2005). According to findings, four fifths of companies prepare the description of each of the jobs, two fifths use them for performance assessment, one fifth use them in other areas of human resources management as well while one fifth do not use them in any areas.

efficiently with superficial and obsolete job descriptions, or even without them (for instance, in the Japanese work organisation there are no sharp borderlines between the various jobs). If, however, Hungarian companies adopt Western procedures without thoroughly knowing and standardising the content of jobs, it is highly doubtful that adoption is worth its costs, and can even lead to serious disturbance in the operations of the organisation.

Job design is timely when technological or organisational changes are made or new activities or organisational units are introduced. With time, the content of each job may change spontaneously on the initiative of employees or direct managers. Job design involves job analysis, the monitoring and later institutionalisation of spontaneous changes or return to existing requirements.

Screening and promotion. Recruitment and selection are areas of human resources management in which Hungarian companies seem to have been able to break away the most from their socialist legacy and from the type of company management which is embedded in the network of personal relationships.⁸⁸ Procedures ensuring the connection between the market and the organisation had to adapt to the radical restructuring of the labour market; their adaptation probably was accelerated by hiring external consultants. Increasingly standardised recruitment and selection procedures were used in very different kinds of human resources management.

Over the years spent in employment, a large part of employees expand their knowledge as a result of which their earnings grow. One possibility is to accumulate knowledge in the given profession, which is marketable in the occupational labour market, mainly through changing employer. The other way is to enlarge firm specific knowledge, which is marketable through the set of rules on promotion and wage increase at the workplace and through the intermediation of the internal labour market (Gábor R. 1997).

As part of the knowledge which impacts employees' productivity is firm specific, the employer and the employee may be mutually interested in maintaining the employment relation and shut off labour market impacts. Some of the costs of training and orientation are paid only once (Oi 1962) and because of imperfect selection procedures, it is cheaper to acquire reliable information on the company's employees than on outside candidates. Therefore the majority of jobs at large companies are filled with insiders: employees, who have proven to be good are promoted, employees on a fix term contract are hired as permanent workers, agency workers become own staff. Employees can increase their wages mostly through climbing up in the job hierarchy.

Setting wage tariffs through job evaluation. If the measurement of performance by person and by task is difficult, wages can be set with the help of impersonal factors. The most widely used method is to put jobs into categories of pay ranges (wage scale categories) on the basis of the variables and requirements of employees. The success of the method depends on how much em-

⁸⁸ This is underpinned by Bokor *et al* (2005) in their research based on interviews with managers.

employees accept the procedure and the result of categorising as fair, how much they are afraid of losing their jobs or not getting promotion and higher wages if they do not score well in random inspections or regular evaluations partly based on subjective elements, and what are their alternative job opportunities. In countries with strong trade union traditions wage tariff systems are often agreed on in collective agreements.

Job evaluation is ranking jobs at the company in terms of their relative importance in order to put them in various pay ranges. Several large companies evaluate their complicated job structure by a complex score system; of these the most widespread is the procedure developed by Hay group. According to a survey, one fourth of 77 companies – mostly large ones – using performance evaluation use this kind of procedure, and one third of them use the Hay method (*Karoliny* 2005).⁸⁹ As the requirement of predictable cooperation permits only little differences in wages in comparable jobs at large companies, the result of the job evaluation may significantly influence the individual's wage. Generally, the desirable difference between the lowest and highest basic wages in the same category is not more than one and a half-fold, the difference being modified a little by bonuses and various fringe benefits. In contrast, differences in earnings in similar jobs were two or three fold at socialist companies, depending on the employees' willingness and ability to step up performance in general and to an extraordinary degree at peak production times or in face of contingency, and how aptly they bargained with workplace management (*Köllő* 1982; *Szirácski* 1983).

The relationship between job evaluation and demand and supply is provided by salary surveys. Hiring consultants specialising in job evaluation approximates the methods and results of job evaluation carried out by various companies. Companies using job evaluation and participating in salary surveys can keep track of wages paid by other organisations for similar sets of tasks.

But does job evaluation meet the expectations? Or do companies only adopt foreign practices to do what top management requires them to do but eventually do not determine wages on this basis? This, in fact, depends on whether the company has managed to specify the tasks of a given job more accurately and better approximate the activities of persons in the same jobs than in the 1990s. Dissatisfaction and potential quittance of those employees who are able and willing to do peak work and untypical tasks may cause disturbances in the organisation if workers in the same jobs cannot really replace one another and if the management is unable to create the necessary conditions of work. If highly productive workers do not do the same tasks as less productive ones, the division of labour has to be refined and thus differentiation between wages becomes justified in the logic of job evaluation. Nevertheless, in some cases the wages of employees in nominally the same job were raised to at least the minimum level of the given pay range but it was

89 As few as 3 of the 77 interviewed companies said that their categorisation method takes into consideration the potentially exploitable elements of human capital.

not made clear whether the low wage was given because of weaker performance or unsuccessful informal bargaining. The standardisation of the wage system was not always accompanied – at least not immediately – with reducing differences in the productivity of various employees in the same job, firing weaker performing employees or putting them in a lower wage job.⁹⁰ At the same time, the wages of the highest productivity or best bargaining employees were not decreased, though they were not always put in a higher-wage job, either. With job evaluation, the wage-performance bargaining is not eliminated, only new forms and issues emerge. Evaluation is efficient if accepted by employees as fair and their representatives are involved in the procedure. This, in turn, makes it possible to bargain, formally and informally on the criteria of evaluation and their relative weights as well as on the categorisation of the various groups of jobs.⁹¹

The research on firms using performance evaluation gives information on the methods of setting basic wages, too. The majority of managers think that basic wages are primarily determined by the labour market and/or individual bargaining. Job evaluation plays a role in one fourth of companies, which reduces but does not exclude the effect of the factors mentioned first. Trade unions have an influence on basic wages in as few as one tenth of companies (Karoliny 2005).

Job evaluation can be regarded as a bureaucratic procedure in the internal labour market, and its importance tends to decrease in countries flexibilising their labour markets. The mechanism of setting wages through the internal labour market has given way to occupational labour markets in Hungary as well (Gábor R. 1997).⁹² At the same time, the rules of preserved or newly created internal labour markets have become more formalised than before the 1990s, and, as mentioned earlier, bureaucratic regulation within the organisations of large companies has generally strengthened.

Combining time rates with other wage guidelines and incentives. As improving certain elements of human capital of employees enhances the flexibility and competitiveness of the company, it seems reasonable to set their wages in accordance with their potentially exploitable knowledge, expertise, capabilities and skills. In the 1990s, some large Western companies attempted to modify wage determination according to this logic, but its profitability was not guaranteed as wages were not connected to actual activities. Furthermore, it could create tensions between employees if in the given division of labour those who do jobs requiring more and different kinds of human capital earn significantly more than other employees doing the same activities. In practice, usually wage determination is based on a combination of potentially and actually exploited human capital. For instance, not all of the potentially exploited human capital of the employee is taken into account but only a part of it, such as the part used in the job over the past two years, and wages are

90 Given the inaccurate and obsolete job descriptions and irregularly and informally carried out performance evaluation, the management has to consider that in a potential labour law suit it will be difficult to prove that their act was lawful.

91 Conservative conjectures about specific empirical cases can be made on the basis of the following management and experts' reports Hiezl–Várbelyi (2000), Kelevéz (2003), Lindner (1998), Molnár (2003), Nemeskéri (2002). An illustration of the controversial expectations about job evaluation is the case, told by a manager in an interview, when a few years ago the Hungarian Post planned to standardise wages through job evaluation and a related time rate system. The wages would have been modified by multipliers and by fringe benefits to adjust them to the local conditions of work and labour markets; this, however, provides possibility for separate informal bargaining, too (Potykiewicz 2001).

92 The underlying factors are the greater decline in employment than in production in the 1990s, decreasing organisational size and stability and the loss of training workshops at companies.

regularly reviewed on this basis. Obviously, the recognition of the potential use of the various skills and knowledge and the identification of human capital demand of the various tasks can be subject to bargaining, and recording individually the work done involving a variety of different elements of human capital can significantly increase transaction costs.

While it seems advantageous for its short term costs, using exclusively pay for performance is neither possible nor desirable at modern large companies. The performance of a large part of tasks can be evaluated only on the basis of several parameters collectively, and replacing employees is very costly because of their specific knowledge that improves performance. Despite, socialist large companies used pay for performance in several jobs, mostly blue collar ones, as many of the managers thought that it was an efficient incentive. Because of labour market and organisational conditions, however, direct managers practically guaranteed the usual level of pay for performance for most of the employees through intensive bargaining with the top management and using tricks in measuring performance (see for instance *Fazekas* 1982). In the 1990s an important step of the restructuring that affected many jobs was the switch from pay for performance to wage tariffs and the cancelling of various kinds of bonuses that used to be a tool for the workplace management to differentiate between employees (*Neumann-Berkó-Tóth* 1993).⁹³

Wages based on evaluating performance in a more indirect way and using subjective elements is applicable only in small organisations over which the managers have a clear view. To coordinate wage determination at larger organisations requires impersonal mechanisms for assigning tasks and evaluate performance on an essentially individual basis makes operation non-transparent and unpredictable – just as it has been observed in the partially restructured successor organisations of socialist enterprises. Categorising jobs by pay ranges, or determining wages on the basis of seniority can result in a stable and reliably performing labour force and calculable wages. At the same time, a modern large company needs the flexibility of wages. The tools of differentiating performances are: differentiating employees within the pay range category of the job, premium for outstanding performance in the short run and promotion for permanently outstanding performance.

An important issue in setting wages based on time rate categories is to define the size of the ranges and of overlaps. What has to be decided is what wage setting mechanisms will be used other than job categories. While too narrow ranges and too small overlaps mean that almost only the job categories will be considered, wide and significantly overlapping ranges may result in seniority having too big an impact on wages which leads to an even more rigid automatism than job categories. The other possibility may be tempting: big differences in wages reward outstanding performance. But the subjectivity of specifying requirements and of measuring performance leaves little chance

93 A special case of approximating the performance of employees in the same job is to give those blue collar workers a group wage, whose performance could be measured individually and earlier had been paid individually (*Janky* 1996; *Neumann* 2003). As a result, outstanding performances dropped while “free riding” as well as mutual help and pressurising became a possibility; presumably, the goal of the management was exactly this as well as making total performance more predictable.

for that. Therefore, pushing the performance principle too far may be counterproductive and increase insecurity.

In the spirit of individualising the wage system, modern large companies frequently try to significantly widen pay ranges but eventually stop short of it. In organisations operating in a structure of impersonal and predictable jobs it is unimaginable that employees perform similar job requirements very differently in the long run, which implies that their wages cannot differ very much. The logic of this kind of organisation is that employees performing outstandingly for a long while are promoted while long term underperformers are fired. Even if there were significant differences between employees in the same jobs, performance evaluation procedures would not necessarily be able to differentiate between them. Should the level of personalisation necessary for this evaluation be viable (for instance through the hierarchy of rank at Japanese work organisations or – very differently – through the market-type bargaining within the socialist enterprises), there would be no need for Western companies to base their operations so much on jobs descriptions and could easily eliminate one of the main causes of their inflexibility.

Most modern large companies consider bonuses given on an occasional basis and profit sharing and employee stock programs as the best tools of rewarding performance. The advantage of individually given premiums is the on-going and strong incentive while a potential error in the performance evaluation does not impact the regular and usual wages. Its disadvantage, however, is that performance requirements are short term as opposed to reward by way of promotion. In case of group work, typical at modern organisations, individual performance cannot always be evaluated and significant differences in the wages across the members of a group may undermine cooperation. Group premium, profit sharing and employee stock programs can be incentives towards the long term goals of the organisation but at the same time bigger groups and bigger time spans may increase the danger of having free riders. The motivating impact of employee stock programs works best if, in addition to paying dividends, the management involves employees in making certain decisions at the company. This, however, can be limited by the technological and organisational characteristics of the company, and may open up new areas of labour market bargaining.

Performance evaluation. Due to the complexity of tasks and of the work organisation, performance (the output of activities) in the narrow sense more often than not is not measurable. Instead, what is observed is the frequency of specific activities or of personal variables connected to the output. If the observable variable is not connected closely enough to output, performance evaluation may qualify workers unsuitable, who on the whole work satisfactorily, or the other way around, may reward employees, who do well only in terms of the observed indicator.

94 The sample of the panels survey launched in 1996 in the frames of the research program *Versenyben a világgal* is representative for companies employing over 50 in terms of ownership, size, location and sector. The samples of the research in 1999 and 2004 were supplemented to make it representative in terms of employment size and region; over 300 companies were included in each of the research projects.

95 Users of a combination of several approaches are mostly industrial companies, where blue collar workers are evaluated too.

96 *Kökuti-Suha* (2000) report several methodological and procedural shortcomings. *Farkas et al* (2003) present the case of a multinational large company, which could not prove at court that it had lawfully fired an employee as the result of the performance evaluation the company given in evidence was not specific and failed to convincingly differentiate between employees and was not properly documented. The statutory performance evaluation of civil servants has been especially heavily criticised as the law has essentially failed to define the basis (tasks in a job and the specifications of requirements) and the potential areas of use of the assessment (differentiating wages, promotions, training and communication) as well as the requirements of certain agencies as a whole (*Erdődi* 2004; *Mohácsi* 2002; *Nemeskéri* 2003a). Instead of raising wages in a differentiated way, differentiating wages of civil servants could be achieved by reducing the wage of some of the servants; the costs of expected organisational conflicts, however, are high enough for workplace heads to carry out the evaluation only formally.

Apart from decisions on wages, performance evaluation is used in examining aptitude for jobs involving greater responsibility, feedback on outcomes, identifying training and skills development needs or follow up evaluation of selection procedures and development programs.

Up to date methods of performance assessment represent a shift from evaluating personal variables towards behaviour assessment (behaviourally anchored rating scales showing low vs. high performance, or behaviour observation scale). However desirable differentiated wage increases appear to organisations wanting to flexibilise, the performance assessment is not the right method. Regularly repeated procedures are one form of planned and documented organisational communication. Assessment interviews conducted in the same way across jobs or in large employee groups may help identify the impediments of efficient working and make controlling the lower level management easier for top managers.

The only research on the penetration of performance evaluation, based on a representative survey⁹⁴ found that between 1996 and 2004 nearly half of the companies used formalised performance evaluation methods, and almost exclusively for the purpose of determining rewards. 5 to 10 percent of companies in 1999 (*Arccal a...* 1999) and 15 to 20 percent in 2004 (*Fókuszban a...* 2004) used it for other purposes, such as promotion, planning training. A questionnaire survey found that four fifth of the 112 interviewed companies used formalised performance evaluation, and over half of them in almost all job categories (*Karoliny-Farkas-László* 2003).

According to research findings, about the same number of companies use a fully, or largely, formalised evaluation to decide about differentiated wage increases as those which do not use it at all or only to a minor degree (*Karoliny* 2005). Nine tenths of interviewed companies evaluate several groups of employees in a formalised way, and over two thirds use the same method.⁹⁵ Half of the companies in the sample started to use formalised performance assessment only after 2000, but then for all groups of employees; at the same time only two thirds of the evaluators were trained experts. These underpin the opinion of researchers and experts that modern performance assessment methods, just like other formalised procedures, have not yet been integrated in Hungarian company management practices (*Bokor et al* 2005). Formalised methods either do not imply a real stake for participants or there remains a large room for informal bargaining in the course of formalised management procedures – provided managers are right in thinking that performance evaluation is really so much important in determining individual wage differences.⁹⁶

Organisational communication. The method of organisational communication – the role of vertical and horizontal flow of information and the combination of its forms – is tightly interrelated with the operation principles and

power relations of the company. In the ideal linear functional organisation, the direction of the flow of essentially important information is exclusively *vertical*. Managers send instructions to executives, who are responsible for reporting to their superiors about potential failures of implementation. Solving problems by individual decision making or by horizontal negotiation between employees is not only unnecessary but harmful and subject to prosecution. It is assumed, that problems are best addressed by a specialised and higher level organisational unit, which is separate from the executive level, and initiatives by employees and horizontal negotiation reduces the efficiency of the management and causes the organisation to disintegrate.

In several jobs, however, a great part of the necessary knowledge and skills can be acquired by doing the job. It would be very costly for managers to prescribe and control all the moments of work, and employees, in the hope of better bargaining positions, are reluctant to share this kind of knowledge with their superiors. Thus, modern managers are ambiguous about employees' initiatives, the *horizontal* flow of information and mutual help. On the one hand these activities are appreciated and encouraged as necessary to the operations of the company but on the other hand the horizontal flow of information modifies internal power relations and makes managing activities with traditional tools difficult. Uncurbed and uncontrolled, the horizontal flow of information would deprive Western work organisations from their primary virtue: predicable operation. Therefore managers try to limit it to a reasonable level and institutionalise it in a controllable form.

An important development in organisational communication is that the management tries to tap trade unions' powers over business interests. Most importantly, employees can not only express their dissatisfaction with the employer by quitting but can voice their complaints and demands through trade unions (Freeman 1976). This is especially important in view of employees' firm specific knowledge as a key to improve performance. It is thus reasonable for the managers to try to increase and keep under control the number of communication channels with their own tools and learn about the hidden sources of conflicts within the organisations without having to suffer trade union operations and informal bargaining.

In a research on 35 machine industrial enterprises, the presidents of the works councils were asked about the primary way for workers to remedy their wage problems. At 15 enterprises they could do so through the trade union, at 15 through the direct manager and at four through the works council; only one respondent said that individually. Employees turn to their direct managers regarding wage issues in over half of privatised companies and in two thirds of newly established firms while in half of the companies in Hungarian ownership and in one third of foreign owned companies. At two fifths of interviewed Hungarian owned companies trade unions are the primary

channel and works councils play hardly any role. In one fifth of foreign owned companies wage complaints are passed on through the works council, in half of them through the trade union, which explains why direct superiors play a relatively little role (Makó–Novoszáth 2000).

Based on survey in which 360 top and middle-level managers and labour experts at 24 companies were asked by way of questionnaires and in interviews, Bokor *et al* (2005) found that organising communication is one of the weakest areas of human resources management. In this case, however, it seems hardly possible for the company to remove forms of communication trade unions can use for organising or informal bargaining and replace them with its own controllable tools.

Researchers established three categories of firms in terms of the roles of human resources managers in interest negotiations. Some of the human resources managers personally participate in solving conflicts and are confused about whose side they are on. The second type of managers refuse to participate in conflict solving altogether or put a subordinate in charge. The third, and rare, type is able to reconcile the two roles, and they are the most appreciated by fellow managers.⁹⁷ They develop communication channels (for instance anonymous intranet fora, employee surveys, newsboards, company bulletins) as well as adequate performance evaluations procedures and train direct managers to apply them to facilitate the exchange of information between employees and managers without their own personal participation and along the lines of company goals. This kind of understanding of their role has much in common with organisational design, discussed in the next section.

Optimizing influence activities by organizational design

The two ways for the employer to control employees are the behaviour-based and the output-based control. The possible tools for the first are prescribing tasks and developing a hierarchical supervising and controlling organisation as well as indirect forms of observing employees. However, to fully clarify problems and tasks is often only possible while in the process of carrying out the tasks and by adapting to unforeseen circumstances. According to the theory of transaction costs, work contracts, which require the general obligation of cooperation of employees, serve to save costs which in turn makes the hierarchical relations of subordination and eventually establishing and running business organisations sensible (Williamson 1975, 1985). For this purpose, however, often the information obtained from employees has to be used to control them, which makes efficient controlling difficult but not impossible. Behaviour-based control serves exactly this end: job evaluation, performance evaluation with its subjective elements as well as quality management are the means of regulating self-control of employees and documenting autonomous decisions for any future control by the management. In case of output-based

97 According to the research, managers do not seem to be able to handle the difference between focusing on processes vs. people yet separating the two would be necessary to reconcile the two extreme roles. The main dilemma for human resources managers is the administrative vs. strategic role. However, to recognise the strategic role is important because their prestige, share from the company budget as well as a personal income greater than the other managers' depend on it.

control, there is no need for direct control. According to the principal-agent theory, the incentive-providing work contract has an enforcement power as the employee gets paid only if meets previously specified requirements (Ross 1973; Jensen–Meckling 1976). In case of multitasking, however, the problem of selecting, weighing and measuring evaluation criteria arises (Holmstrom–Milgrom 1991; Prendergast 1999). A further consideration is that instead of cooperating and increasing common performance, employees will try to influence the evaluator in a way that disadvantages the others (Prendergast, 1993, 1999; Prendergast–Topel 1996).

The two theories agree that by pursuing their own interests, parties will be inclined to misguide each other about facts and intentions. Optimizing influence activities by organizational design is based on the belief that interest driven behaviour of employees and their efforts to improve the pay/performance relation can be best curbed by specifying the general cooperation requirement on an on-going basis rather than by developing a self-enforcing work contract in advance to guarantee cooperation. Accordingly, management methods can be gradually refined and adjusted with the help of behaviour-based control and analysis of employees, and thereby the risk can be reduced that employees use the information channels, indispensable for management decisions, to improve the pay/performance relation (Milgrom 1988; Milgrom–Roberts 1988, 2005; Williamson 1993).⁹⁸

Optimizing influence activities by organizational design has three main directions: 1. limit communication, 2. limit the distributional implications of decisions, and 3. structure decision processes to limit influence activities.

Limiting communication. In some of the companies, the written or unwritten rule is that discussing wages is restricted to the employee and employer and the employee breaches loyalty if tells about his/her salary to anyone, including colleagues. This guideline, followed by Hungarian companies, may undermine the satisfaction and readiness to cooperate of those employees who see their own pay/performance relation worse than others'. This is especially important in group work in which the interest of members is to cooperate, and employees, whose performance is mutually dependent, are likely to know each others' wages. What the employer can do is to try to agree with each employee on a reservation wage, i.e. to pay the amount for which the employee is willing to work at that employer. Employees with low reservation wages earn less and try less to individually influence the decision makers; furthermore, if the management prohibits discussing individual wages, employees will not be informed and trust one another enough to take collective action.⁹⁹

Another way of limiting communication is to make a long term decision on the distribution of wages within the group as a result of which influence activities become insensible. For instance, in the sewing mill mentioned earlier long term inequalities were created between the conditions of work of

98 Organisational design can be used by owners and managers too for manipulative purposes and to distort the facts of their contribution to the company's total income and their rightful share of it. Furthermore, organisational design does not only increase the costs incurred by employees' self-interested behaviour but is itself costly. The impact of structuring decision processes on self-interested behaviour depends after all on who bears what share of the costs of applying the process.

99 A case study on the work organisation of a car manufacturer in Hungary found that the work contract of each of the workers at the plant forbade to speak about the wage. Nevertheless, in reality everyone in the workshop knew the others' wages and the workers often discussed the amounts and calculation methods. Semi-skilled workers readily imparted information to the researcher outside plant premises. While team leaders were more careful, they made no secret of their earnings, high by local standards, if only telling the amount as a hard currency sum or a percentage of the wages of semi-skilled workers. At the next level of the hierarchy, however, earning issues were a real taboo (Tóth 1998).

employees working in various groups, on different types of machines and on different machines of the same type. The plant management largely restricted changing places and thereby fixed the differences in pay/performance relations. Inequalities, however, both reduce the productivity of the plant and increase it because they eliminate conflicts related to decision influencing. Without being forced or professionally supported by top managers, workplace managers have not reformed the organisation as a result of which maintained inequalities collectively benefit the workers in the mill. Employees are more tempted to try to exercise influence if decision making on the division of labour is in the competence of direct superiors than if the decisions are made at higher levels on the basis of information given by the direct superiors. In the case of the sewing mill – and probably in other enterprises as well – this has not happened because the owners did not have the necessary capital and applied cheap management approaches (Bódis 2003).

Finally, communication can be limited by excluding those direct managers from wage decisions who are the most exposed to influencing. In a privatised machine factory in Budapest, the foreign owners believed that workplace managers represented employees' interests against top managers and wanted to stop it. As part of reorganising wages, employees were to be put in different categories, but the top management could not do it without getting information from direct superiors. Finally, direct managers were put in charge of categorising, but wages were assigned to the categories only later. Too big wage differences between interdependent employees, however, on the one hand could lessen cooperation; some of the productive employees could even quit the enterprise. On the other hand, cooperation could improve as employees succumbed less to the temptations of exercising influence (Bódis 1996).

For the very same purpose, in a car manufacturing factory in Hungary, the evaluation to decide the variable part of pay originally was done by the management one level higher than the direct management. Semi-skilled workers are paid time rates but on the basis of individual evaluation repeated every three months they get a performance wage premium up to one quarter of the regular wage in the period before the next evaluation.¹⁰⁰ The shopfloor manager in charge of evaluation has 50 to 150 subordinates and has no detailed information on the workers, therefore the evaluation is actually done by team leaders, automatically approved by the shopfloor manager (Tóth 2002). This practice, together with the subjective nature of evaluation, is a source of conflicts within the group, involving the risk of group members wasting their energies on influencing their direct superior. But as the workers work in groups, they have to informally agree on the pay and performance relations, and eventually the performance assessment made by the team leader and endorsed by the shopfloor manager sanctions this agreement.

100 The criteria of the evaluation were cooperation in relation with holidays, innovative and idea giving skills, cleanliness of the work surroundings, working attitude, flexibility, creativity and meeting cost and quality requirements.

Limiting the distributional implications of decisions. This method of optimising influence activities is based on the idea that if management decisions have no or hardly any influence on wages, there is no sense in trying the influence them any longer. The simplest solution is to introduce equal wages. One consequence, however, is that the incentive ensured by the difference in wages will be lost. It is a price worth paying if the costs of influence activities and of employees' improving performance and pay relations to each other's detriment are too high for the organisation.

A case study on a car manufacturing company in Hungary found that semi-skilled workers were paid equal wages, twice as high as comparable workers could earn in the region at the time of the research (Tóth 1998).¹⁰¹ This solution of paying high and equal wages was evidently used to increase cooperation within the organisation, which did not reduce the company's competitiveness because it increased performance. The counter-pole to car manufacturing is the textile industry. A similar cooperation was observed in the large sewing mill, where the management failed to set different performance requirements even though the productivity of machines doing the same operation was significantly different. Less productive workers were assigned to the more productive machines, who then opted for working less hard instead of trying to increase their wages – and thus had no conflicts with their fellow workers. Loss in production could be counterbalanced by the increase made possible by avoiding fighting for the better machines and better wages and by improving cooperation. This case, however, also illustrates that even if paid similar wages, workers may try to improve their situation to the detriment of others by working less hard (Bódis 2003).

Structuring decision processes to limit influence activities. By adequately structuring decision processes and collecting and analysing information on employees' activities, companies may try to better separate the manifestations of cooperation between employees from their trying to improve their pay/performance relations to the detriment of others.

Job evaluation may reduce the insecurity related to bargaining in jobs that have no comparable jobs at other firms and thus wages are independent, at least to a certain degree, from market factors. Involving employee representatives may help avoid bargaining as employees accept the wages as fair. A job evaluation supplemented with a labour market wage survey may help the company assess the bargaining power of the various groups and decide when to make concessions.

If the comparison makes it clear that few companies pay more for comparable jobs, it is easier for the company to refuse wage demands. Even if a few employees quit and it costs a lot to find replacement, the company can still save the costs of raising the wages of all employees in the same kind of job. Handling selective individual and group wage hikes confidentially makes it

101 In addition, once in year a bonus is paid up to half of the monthly wage, based on the performance evaluation carried out by the team leader in compliance with the centrally required methodology.

hard for employees to demand wages higher than the individual reservation wage. It may, however, happen that because of changes in supply and demand in the labour market or as a result of bargaining whole groups in the same job or occupation can get a wage increase. If the change in relative wages proves to be mass scale and long term, this exception must be made a rule when reviewing the job evaluation, and attribute changes to the modification of the content of the job.

Performance assessment can reveal dissatisfaction of employees without individual or collective bargaining – provided that it is primarily used as a form of communication rather than a tool to set wages. According to research findings presented above, this is not the case with Hungarian companies; one must, however, be careful with interpreting the results of questionnaire surveys.

With the self-control and documentation of autonomous decisions of employees, quality management can be a tool of later management control. In case of *total quality management*, participants in the technological process participate in a formalised way in and assume responsibility for meeting prescribed parameters, record and, if necessary, remove malfunctioning. *Boxes of ideas, discussion groups and quality circles* create fora and incentives for employees to make suggestions about solutions to problems identified by the management. It remains a question, however, whether in the post-socialist transition employees are willing to mobilise their resources in issues other than the pay-performance bargain.

According to a research on the electric and electronic industry, employees' tasks grew most compared to the socialist period were in the area of quality management (in 1995 one fourth and in 2000 nearly 30 percent of employees of the researched companies participated in quality management) (Makó–Simonyi 2003a). Another questionnaire survey found that two thirds of companies assessing performance had ISO quality management, one third operated on the basis of full quality management and almost all companies employing over one thousand used both tools (Karoliny 2005). A series of case studies highlighted that the use of formalised quality management procedures is subject to informal workplace bargaining (Makó–Simonyi 2003b).

Answers to questionnaires, however, depend on how well respondents know the requirements and purpose of participation, which in turn is impacted by the formalisation of quality management. A case study on a large sewing mill in the mid 1990s presents how work in pairs instead of work on the line, widely used in the industry, improved quality and helped cut management costs. The management had to control only the quality of the end-product, the correction of substandard quality produced in the technological process and "punishment" for sloppy work was left to mutually dependent fellow workers. This special way of quality management, however, may generate conflicts. Paired up workers can improve their situation not only by working

more carefully and accurately but also by trying to make their partners correct their mistakes or get their badly working partners assigned to someone else (Bódis 2003).

The management of an instruments manufacturing company decided to provide incentives for innovation through wages rather than small amount premiums and other symbolic rewards as earlier. According to the informal agreement, profits gained through innovations reducing the technological time requirement will be distributed by leaving performance requirements unchanged for six months (Neumann 2003). In one of the car manufacturing firms in Hungary, innovations earn employees scores, and employees are paid a few thousand HUF for a certain number scores, regardless of the applicability of the innovation. Employees submitting applicable innovations, however, are paid two percent of the annually saved labour or material costs. Typically, there are two kinds of innovations: solutions to make work easier and ideas on control, flaw detection and procedures facilitating flawless production (Tóth 1998).

Summary

Hungarian empirical research findings suggest that company managers do not clearly differentiate between management procedures embedded in personal relationships and impersonal management methods. Some of the human resources managers are too much involved in interest conflicts while others totally refuse to participate in developing solutions; few try to reconcile the two approaches. It is found that Hungarian firms design their organisations in a way that helps separate the information flow between members of the organisation and the improvement of the pay/performance relationship. Informal workplace bargaining, however, has not disappeared: in fact, researchers have found that it has spread over to new management techniques, aggravated by adopting formalised Western approaches without thoroughly understanding the interconnections in the organisation.

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