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Relations in Hungary:
Between Home Country – Host Country
Effects and Global Tendencies**

JENŐ KOLTAY

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Multinational Companies and Labour Relations in Hungary:
between Home Country – Host Country Effects and Global Tendencies

Author:

Jenő Koltay
Senior research fellow
Institute of Economics
Hungarian Academy of Sciences
E-mail: koltay@econ.core.hu

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JENŐ KOLTAY

Abstract

This paper will approach the role of multinational companies (MNCs) in shaping Hungarian labour relations in a broader context. Departing from an overview of macroeconomic developments of the last two decades, all levels and aspects of labour relations, actors, strategies, institutions and practices will be examined in order to grasp Hungarian specifics against features common to new EU members in Central and Eastern Europe. A closer look at the underlying macroeconomic framework will help to highlight how in an early transforming, small and open economy incoming FDI and MNCs affect the system of industrial relations which in turn becomes one of the coordination mechanisms differentiating economic and political regimes of old and new market economies. In evaluating the impact of MNCs on Hungarian employment relations home country and host country effects as well as global tendencies will be considered within the ‘vehicle of change’ and the ‘outpost test department’ extremes.

Keywords: labour relations, multinational companies, collective agreements, informal bargaining, tripartism, social dialogue, Hungary

JEL: F23, J51, J52, J53, J83, M12, M54

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Multinacionális vállalatok és munkaügyi kapcsolatok Magyarországon: anyaország – befogadó ország hatások és globális tendenciák

KOLTAY JENŐ

Összefoglaló

A tanulmány a multinacionális vállalatok munkaügyi kapcsolatokat befolyásoló szerepét szélesebb összefüggésben közelíti meg. A rendszerváltozás óta eltelt két évtized makrogazdasági fejleményeinek áttekintéséből kiindulva, a munkáltató-munkavállaló viszony különböző dimenzióinak, az állam szerepének, és a szereplők, stratégiák, intézmények és gyakorlatok elemzésén keresztül próbálja megragadni e viszonyrendszer magyar sajátosságait és a környező új EU tagországokkal közös vonásait. A munkaügyi kapcsolatok vizsgálatának beillesztése a mögöttes makrogazdasági keretekbe segíthet annak megvilágításában, hogyan alakítják egy gyorsan átalakuló, kis, nyitott gazdaságban a külföldi működőtőke-tőkeberuházások és a multinacionális vállalatok a munkaügyi kapcsolatok rendszerét, s hogyan válik ez utóbbi az új és régi piacgazdaságok gazdasági és politikai rendszereit megkülönböztető egyik fontos koordinációs mechanizmussá. A multinacionális (leány)vállalatok szerepét a 'változások hordozója' és a 'kihelyezett kísérleti részleg' szélsőségek között értékelve a tanulmány egyaránt sorra veszi az 'anyaország' és 'befogadó ország' hatásokat és a globális tendenciákat.

Tárgyszavak: munkaügyi kapcsolatok, multinacionális vállalatok, kollektív szerződések, informális alku, tripartizmus, társadalmi párbeszéd, Magyarország

JEL: F23, J51, J52, J53, J83, M12, M54

INTRODUCTION

Starting with an overview of economic developments of two contrasting decades after the regime change, we intend to approach the role of multinational companies (MNCs) in shaping Hungarian labour relations in a broader context. Different dimensions of employer-employee relations and the role of the state, organization and strategies of the actors, bargaining institutions and practices will be examined in order to grasp Hungarian specifics against features common to new EU member countries in Central and Eastern Europe (CEE countries). A closer look at the underlying Hungarian macroeconomic framework related to an extended 'varieties of capitalism' analysis (Hall and Soskice, 2001; Drahokoupil Myant, 2009; Greskovits, 2005; Feldmann, 2006; King, 2007; Nölke and Vliegenthart, 2009) will help to highlight how in an early transforming, small and open economy incoming foreign direct investment (FDI) and MNCs affect the system of industrial relations which in turn becomes one of the coordination mechanisms differentiating economic and political regimes of old and new market economies.¹ In evaluating the impact of MNCs on Hungarian employment relations home country and host country effects as well as global tendencies will be considered within the 'vehicle of change' and the 'outpost test department' extremes of the debate on the much discussed role of MNC subsidiaries.

¹ In their 'varieties of capitalism' book Hall and Soskice (2001) identified 'liberal' and 'coordinated' varieties of capitalism, this approach has been critically extended in the recent literature to compare developed and new market economies, and applied to differentiate various post-socialist economies (see, Drahokoupil-Myant 2009, Greskovits 2005, Feldmann 2006, King 2007, Nölke 2009 among others).

THE HUNGARIAN ECONOMY: FROM REGIME CHANGE TO GLOBAL CRISIS

Transformation, stabilisation, and growth (the first decade)

In the year 1989, Hungary could boast a less state-controlled economy and more significant progress in its reform process than its fellow former Soviet bloc nations. Partial reforms introduced before the regime change, beginning near the end of the 1960's had led to the development of the spirit of enterprise, market relations (particularly in the parallel economy²), pronounced wage individualization, and significant openings to trade with Europe and the West. These intrasystemic reforms played a role in Hungary's choice of a 'gradual' transition model over 'shock therapy' as in Poland or even the Czech 'mass privatization' approach (Koltay 1999). This early and gradual transition explains why the 'transformational recession' (Kornai 1994) in Hungary produced a comparatively moderate GDP contraction of 18% between 1989 and 1993. The rapid restructuring of systems of production, however, did cause rapid growth in the unemployment rate, which stood at 12% in 1993.

Privatization and a massive influx of foreign capital furthermore—and more rapidly than elsewhere—reinforced the contribution of the private sector to GDP (85% in 1998), whereas foreign ownership of industry comprised 66%, 70% of financial institutions, 90% of telecommunication, and of the trading sector, 50%. Along with the inflow of capital, MNCs also brought new management and work organisation schemes. Purchases and the creation of new firms in Hungary through 1995 attracted as much foreign direct investment as all other CEE countries combined. Towards the end of the decade, Hungary continued to attract one third of the FDI in the region (CEE and ex-USSR), yielding the highest FDI stock to GDP ratio in the CEE³. This early, massive arrival of MNCs developed into a 'structural advantage' (Greskovits, 2005). Coming mainly from the EU, and concentrated in manufacturing, the FDI induced an export boom (where the share of MNCs and assimilated firms was about 70%). Within a decade, with a gradual shift from textiles and food to vehicle production and

² This included the VGMKs (in-firm business work partnerships) of the 1980s, allowing employees (about 10% of industrial labor) in the 1980s to form autonomous groups within state-owned enterprises and to work on a contractual basis after regular working time, 'entrepreneurial skills' acquired here proved to be an asset for small-scale start-ups after the regime change, also fueling the hidden economy (cf. Koltay 1986 and Makó 2005).

³ 38% in 1998, against 17% for the Czech Republic, 9% for Slovakia, 10% for Poland. Other CEEs were catching up later, e.g. Romania reached 34% and Estonia outperformed Hungary, which in 2008 still lead among the 'Visegrad countries' with 56%, the corresponding figures being 47% for the Czech Republic, 39% for Slovakia and 31% for Poland (Eurostat and WIIW-Wiener Institut für Internationale Wirtschaftsvergleiche data).

high tech sectors, manufacturing exports increased ten-fold. Productivity gains in industry attained on average 11% per year between 1992 and 1998. The economic transformation of the 1990's fueled an 'export-led' and 'FDI-based' growth and integration perspective in which exports of (higher value-added) products, manufactured in local branches of large MNCs, played a dominant role.⁴

Toward the end of 1994, driven by a 9% deficit of the budget and of the balance of payments as well as an external debt of 70% of GDP, the threat of the international financial crisis compelled Horn's socialist-liberal government to introduce a stabilisation program in 1995 without consulting the social partners, thus missing the chance to reach a social pact. The 1995 "Bokros package" (which bears the name of the finance minister) included severe budget cuts (-15%), a 9% devaluation of the forint, and the adoption of a 'crawling peg' régime. Budget and balance of payment deficits dropped almost immediately, whereas the record advances in FDI and privatization revenues significantly reduced external debt from 45% of GDP in 1994 to 32% in 1996. The inflation rate accelerated (28% in 1995 and 24% in 1996 compared to 21% in 1994), and real wages plummeted from 12% in 1995 to 5% in 1996. This flexible downward adjustment, made possible by decentralized fixation of wages, slowed inflation and halted increases in unemployment. The year 1997 saw the return of positive economic growth that enabled the 1999 GDP to rise to 1989 levels.

Reform efforts to reduce budget share and increase efficiency in public services (such as health, retirement pensions, and education) were hampered by resistance limiting their effectiveness. With respect to retirement plans, a three-pillar system that addressed a public (pay-as-you-go) system, obligatory private pension funds, and optional private funds was introduced in 1998, but it did not yield a long-term sustainable system. Maintaining social cohesion did not allow a continuous and strict control on growing social expenditures and agricultural subsidies. Instead of structural reforms ad hoc expenditure cuts and/or occasional increases of taxes or social security contributions tried to remedy the endemic deficit of the budget. The redistribution rate (general government expenditure ratio to GDP) at 60% in 1992, dipped below 45% in 1999 (less than the Polish or Czech rate), while the budgetary deficit stagnated around 6% of the GDP over the same period. By the end of the 1990s, Hungary had repaid the entirety of its IMF debt, GDP continued to rise at a rate of 4-5.5%, and real wages had returned to their 1989 level in 2002.

⁴ MNCs (77% of them coming from the EU and 25% from Germany) produce 60% of the GDP and employ 35% of the private sector workforce (about 50% in manufacturing, 27% in services, 55% in finances).

Overspending, austerity, crisis management (the lost decade)

Paralleling the successful EU accession process, Hungary's economic outlook had deteriorated from 2001 onwards. Economic growth slowed to below 4% beginning in 2002. As a result of subsidized loans and tax credits for home buyers, public sector wage increases (50% in 2002), and generous welfare payments (such as a 13th month pension), prime Minister Orbán on the right, and Medgyessy and Gyurcsány on the left – all overbidding in election campaigns –, allowed the budget deficit rise to 10% of GDP and the government debt to 66% of GDP (a ratio that was under 30% in the Czech Republic and Slovakia), and inflation rates to exceed 6%. A significant portion of the financial inflow fueled state budget deficits, but part also went to businesses and households, with governments encouraging mortgages.⁵

The advantages attributed to early accomplished transformation and reform antecedents turned more and more into rigidities, obstacles to further structural/institutional reforms. In 2006, Gyurcsány, once reelected, unveiled an austerity package to reduce the budget deficit to 3% of GDP as part of efforts to align the economy with Maastrichtfiscal rules. While the deficit was curbed to 3.4% in 2008, GDP growth (evolving around 4% in the last ten years) began plummeting (to around 1% in 2007-2008), a drop that was accompanied by a 7% fall of real wages and continued stagnation of the already low level of employment. Investors, expressing their distrust, criticized the government's choice of tax increases instead of spending cuts. Without adequate fiscal responses⁶ and institutional reforms, the high dependence on external financing and weaknesses in the uncured financial sector weaknesses rendered Hungary vulnerable to the global financial crisis, and let it become one of the first and hardest-hit victims. Downgraded by credit-rating agencies, Hungary raised the interest rate to 11.5%, the highest in the EU, and – after a decade -- was forced to turn again to the IMF, the World Bank and the EU, for a rescue package of 20 milliard euros in October, 2008. The ensuing global contraction of demand, which spread to countries and sectors 'hosting' the bulk of Hungarian exports, produced an immediate, substantial impact on the Hungarian GDP composed / realized in 73% by exports⁷ produced mainly in MNCs. Having lost the support he needed to manage the crisis, Gyurcsány resigned in March, 2009. This left the

⁵The government-boosted middle-class demand for low-interest credit was satisfied by foreign-currency mortgages offered by mostly transnational banks. Beginning around 2000, much of the credit went for house purchases, whereas credits in the 1990s had been overwhelmingly channeled into businesses.

⁶ Left alone, monetary policy should have to assume broad responsibilities with a limited tool-kit, measures of the National Bank, concentrating only on inflation targeting, paying less attention to exchange rate and facing the crisis with low foreign exchange reserves, became also a controversial issue. (cf. Furceri-Zdzienicka 2009)

⁷Hungary and the Czech Republic have a solid industrial base for their 73% and 60% of GDP export share, while Slovakia's high export share of 71% of GDP is based on its recent automotive industry, at the low end, Romania has a 23% of GDP export share (Figures from: CE Business Club 2009).

minority government of Bajnai, which was limited to procyclical measures by global developments and by the mistaken policies of previous governments, with the obligation to ensure fiscal sustainability and financial stability in order to win back the trust of investors and regain access to international financial markets. Through further spending cuts,⁸ the public deficit was maintained below 4% in 2009, and external financing conditions have improved while financial collapse has been averted⁹. Following a 6.3% fall in GDP in 2009, the macroeconomic outlook is now somewhat brighter, even in the absence of promising rapid economic recovery (0-1% growth in 2010) or a healthier labour market (the employment rate stagnating as low as 55%, with unemployment above 10%)¹⁰. Rigorous expenditure control is to be observed by the new government after the May 2010 election, and, in the longer term, in-depth structural reforms are to be implemented to regain a less vulnerable growth.

⁸ Measures included a downward adjustment of the pension system (gradually raising the retirement age from 62 to 65, ending the 13th month pension, etc.), replacing the universal housing subsidy by a targeted scheme, freezing the public sector wage bill while preserving the purchasing power of lower-income civil servants, increasing some benefits for the poorest disabled, and creating a social fund to provide temporary relief to those most affected by the crisis. Employers were given a stimulus by extending lower social security contributions into 2010, along with targeted cuts in PIT rates, offset by higher VAT rates.

⁹ Hungary was able to issue a €1 milliard euro-denominated bond in July 2009, and interest rates on government debt have fallen. The forint exchange rate, after depreciating to 317 against the euro in March, has recovered to about 270.

¹⁰ With its 56-57% level, Hungary's employment rate has been one of the lowest among the new EU members over the last decade (56.7% against the Czech 66.6%, the Slovak 62.3%, the Polish 59.6% in 2008 for the age group: 15-64, according Eurostat figures), in the crisis it only returned to its 1999 level.

EMPLOYMENT RELATIONS

Actors: organization and strategies

The employment relations landscape of Hungary is highly fragmented, both in terms of employers and unions. There are, for example, a total of nine employer confederations¹¹. Although the older organizations have preserved their sectoral structure due to the legacy of the socialist past, newer associations unite individual businesses, in some cases at the branch or regional level. This fragmented pluralism severely limits the number of potential members and explains in a negative way the introduction of an “à la carte” system of membership dues by the VOSZ confederation that in effect allows multiple affiliations.

Many firms, particularly large ones, and branch organizations belong to several confederations, thus widening their field of influence at modest expense. Membership dues cover on average only one third of expenses, the balance of costs being covered by offering a range of member services and financial support from the government for specific activities like training, entry into new markets, etc. Multiple affiliation, statistical gaps, and the reluctance of organizations to publish data concerning their memberships make it difficult to determine unionization rates (estimated to be 40% of employed in 2004-2005). Most firms remain outside the employers’ associations, but large firms’ membership leads to a relatively elevated membership rate in terms of either total employees or production.

The decentralized organization of employers’ representation is an obstacle to conclude branch-level collective agreements. The majority of them do not show much interest in the bipartite regulation of employment and labour market and regard trade unions as partners in tripartism. Indeed, their priority is lobbying the government to defend their economic interests. In this regard, tripartism offers multiple advantages, including access to public funds and participation in economic and social regulation and in labor relations legislation,

¹¹ MGYOSZ (Confederation of Hungarian Employers and Industrialists), about 6,000 member companies in 51 branch sections and 17 regional associations with a total of 1.2 million employees, a merger of the former MMSZ (Hungarian Employers’ Association) and GYOSZ (Industrialists’ Confederation) in 1998, VOSZ (National Business Association), 40 branch and professional associations with some 500,000 employees, AMSZ (Union of Agricultural Employers), MOSZ (National Federation of Cooperatives and Agricultural Producers), IPOSZ (National Association of Industrial Corporations), Chamber of Handicrafts (100,000 SMEs with about 500,000 employees), KISOSZ (National Federation of Traders and Representation of Interest Caterers), OKISZ (Hungarian Industrial Association), ÁFEOSZ (National Federation of Consumer Cooperative Societies and Trade Associations), STRATOSZ (National Association of Strategic and Public Utility Companies). Membership is voluntary, only five of them are involved as employer associations in collective bargaining (more details on organizations in Tóth 2006).

as well as access to “public procurement” offers (that is open only to members of associations engaged in tripartism).

Employers’ associations differ from employee unions in having avoided involvement in political struggle, on the other hand staking claims to a role in defining the country’s economic strategy within the framework of tri-partism¹². In 2008, this orientation was made explicit through the creation of the Forum for Economic Concertation (GEF), a two-party organization of employers and government whose purpose is to determine the principal directions of economic policy. Organizational weaknesses and lack of expertise, however, continue to significantly limit their influence. Furthermore, concertation with the government can threaten their ability to oppose certain policies and can even compromise their autonomy. Despite these issues, employers’ organizations have become well-integrated into the institutional system and have found operating resources. The primary problem remains divisions among these organizations that stem from the fact that they represent such disparate interests.

For employees’ organisations, freedom of association brought pluralism, and it opened up competition between older and newer unions for members at every level, including firms. This lively competition resulted in a pronounced fragmentation of the trade union landscape, composed of six federations, of which four (MSZOSZ, ASZSZ, SZEZ and ESZT) originated in the former single union (SZOT) and two (LIGA and MOSZ) are products of the regime change¹³. Altogether, the six confederations along with numerous independent unions unite fewer than 600,000 members (compared to 2.5 million in 1992), the 17% union density rate is one of the lowest in CEE¹⁴. Unionisation is considerably higher in the public sector, transportation, energy, and mines (Labor Force Survey 2004) than in other sectors.

At the beginning of the transition, new confederations had no branch structure, whereas in the older organizations, branch level organizations are practically federations of enterprise unions. In the public services that held monopolies, the “craft unions” reappeared, an excellent example being the Union of Locomotive Conductors. The social-democratic

¹² Note that by the turn of the millenium, employers gradually developed a more or less uniform vision of economic policy.

¹³ The main division between the ‘reformed’ trade unions is that they cover different parts of the economy. MSZOSZ represents workers in manufacturing, private services, and retail, whereas ASZSZ represents workers in the utilities and transport, as well the chemical industry. SZEZ and ESZT cover public services, such as health, education, local and central government. ESZT organizes employees in higher education and research institutes. SZEZ and ESZT signed a co-operation agreement in 1995. The LIGA and MOSZ both represent workers across the economy.

¹⁴ Competing confederations are reluctant to give, or tend to overstate, membership figures, which are difficult to reconcile with the Labor Force Survey figures. In terms of employed members the two largest confederations are SZEZ, with 270,000, MSZOSZ, with 200,000, followed by ASZSZ with around 100,000. The LIGA has moved to the third position after FRDESZ (representing the military and the police), joined recently by the electrical energy union (for membership-structure-strategy biases see Neumann 2006).

positioning of the union organizations became consolidated as the position of “reformed” unions (MSZOSZ) strengthened. Other confederations, for example the SZEFG and the Autonomous Unions, concentrate on the ‘material needs’ of their members, getting closer to a ‘business unionism’ model and opted for political neutrality. At the outset of the transition, the MSZOSZ had itself envisioned the development of new member services such as bank cards, insurance, and legal service in order to compensate for traditional services that were casualties of the transition such as vacation houses. The liquidation of the state’s possessions, however, limited the ambitions of union organizations, whose financial difficulties could constitute incentives for fusion operations.

Parallel to the dependence of the union organizations on tripartism because of access to aid and the possibility of lobbying growing difficulties showed up in mobilizing employees, gaining access to unaffiliated work-sites, and facing employer resistance (notable examples being the cases of Suzuki and Hankook). Efforts to consolidate their positions within national tripartism and sectoral dialogue seem to absorb most of the unions’ energies. As one illustration of this evolution, the goal of autonomous organization in work-places has gradually lost ground to a more “corporatist” strategy that seeks “top-down” legitimacy, potentially a better means of justifying the unions’ existence than declining memberships. This strategy is illustrated by the behavior of unions, turning to the state – still a multifaceted center of gravity - in order to obtain extensions of collective agreements (see *infra*) and, in general, to remedy the weaknesses of negotiation through legislation.

Legislation

In terms of employee representation, Hungary implemented a two-channel system in 1992.

Introduced early on, legislation governing works councils gave them more limited rights than those provided for by the German model¹⁵. This legislation, which the unions initially opposed fearing a reduction in their influence, was subject to successive amendments that did ultimately lead to limitations in the unions’ prerogatives. The right-wing government in 1998 reinforced the works councils against the unions; the subsequent socialist government in 2002 then removed the right of works councils to negotiate and increased the consultation rights of local trade unions. As compensation, the unions accepted the new institution, as an indicator of ‘union representativeness’ measured by works council election results. In order to obtain the right to negotiate, a union must have received 10% of the votes in the works council elections; in order to be able to sign a convention, they must have obtained 50%. In

¹⁵ Unlike union organizations, which are elected by union members within a firm, works councils are elected by all of the employees of firms and establishments that count more than 50 employees. Firms with between 15 and 50 employees must elect an employee representative. A central works council can in fact be created by firms with several councils.

2003, nearly half of private sector firms had works councils¹⁶. Despite significant development of these councils, most employees continue to have no works council representation, particularly in newly-created firms, the service and building sectors, and in small and medium-sized businesses.

Union representatives elected in the workplace must be consulted over major issues affecting employment, and they have the right to intervene in cases in which employment rules have been breached. The employer must provide the works council with economic information (important investment plans and activity changes, wage developments, working conditions and work-time), and it is required to consult the council concerning planned measures that have an impact on a large number of employees; such measures include restructuring, outsourcing or privatization, new methods of work organization, setting of performance indicators and questions related to conditions of work. The Labour Code furthermore conveys co-decision rights to works councils on the use of social equipment that is part of the collective agreement, including cafeterias, workers residences, child-care facilities, etc. As consultative organizations that are only sporadically kept informed by employers (almost exclusively during official meetings), works councils have relatively limited power to influence company decisions¹⁷.

According to the 1992 Labor Code, both unions and works councils can be parties to a collective labour dispute with the employer (or employers' association). Before any action, negotiations must be held, and a Labour Mediation and Arbitration Service (MKDSZ) set up in 1996 may also help in reaching an agreement¹⁸. The Strike Law is rather liberal, and it does not specify who is authorized to call a strike; any group of workers may thus initiate a move to strike. Works councils are not permitted to call a strike, and if their members participate in a strike, their mandate is suspended during the action. Unlike many EU member states, Hungary has no legal provisions for employer lock-outs. The law requires 'peace clauses' in order to prevent strikes from disputing valid collective agreements. With organizational pluralism, the question remains whether the peace obligation is relevant to unions that are

¹⁶A survey of 2,600 companies with more than 50 employees shows that in 2003, 49% of workplaces in the private sector had works councils. (Tóth-Neumann 2004), 9% of them being in companies without any trade union. Among the works council members, 75% were also trade union delegates. The Labor Force Survey found in 2004 that works councils represented 36% of employees (Balogh/Neumann, EIRO 2005/01) in medium and large companies and only 18% in companies with 14 to 49 employees. The LFS also found that only 33% of respondents reported a trade union at their workplace, compared with 37% in 2001. It is more or less obvious that 'unions enjoy a far greater support at works council elections than the number of their members would suggest' as the MSZOSZ recently announced.

¹⁷ Its influence is furthermore limited by the fact that there is no legal obligation concerning the minimum contents of a collective agreement; it could thus occur that the works council possesses no power to influence employer decisions even within firms covered by a collective agreement.

¹⁸MKDSZ was established with the help of an EU PHARE project and received widespread support from other national arbitration and mediation services, especially in the USA and the UK, as well as from international organisations.

not signatories to the agreement. It is required but not respected for the parties to agree on the minimum-service provision (especially in public utilities) prior a strike.

Led by the socialist government, the recasting of the Labour Code in 2002 allowed unions to apply pressure for reinforcement of legislation that until then was not in their favour and that did not provide much protection in terms of employment. This recent legislative revision gave the unions rights to information and consultation (notably in the case of major changes affecting employment). These rights had been assigned in 1992 solely to works councils, not without reinforcing the indistinct separation of powers of these two organizations. Within this atypical two-channel framework, in which the same individuals are often both union members and works councils representatives, and in which the councils only really function in large firms where unions are present, unions have gained an advantage over the employee councils to the point of rendering the latter superfluous¹⁹.

The revisions of the Labour Code also provided an opportunity for the unions to reduce the elevated level of flexibility in labor market regulations. Employment protection was lightly reinforced and was tied to union rights to information and consultation. Employee representatives also gained increased protection, lay-off indemnities remaining at low level²⁰. The revisions finally allowed unions to amend the 2001 law governing work-time in order to make it more protective and to counter-balance in part the deregulatory effect of transposition of the EU directive. Nevertheless, practices remain more flexible than legislation, especially in the case of new employment. For the latter, whether or not they are on fixed-term contracts, the employer generally finds a way to reduce separation costs. Flexibility is more noticeable still in terms of work-time.²¹

¹⁹ Employee representation also is assured through the presence of employees on company supervisory boards. If in fact these boards' powers are relatively weak (follow-up of management decisions, call the board to act 'in favour of stock-holders'), the status of membership on the board, often benefiting union representatives and/or works council members, nevertheless offers a certain degree of protection (with regard to lay-offs, and discrimination) that corporate laws do not guarantee.

²⁰ The minimum amount of indemnity varies according to seniority, from one month of wages for employees with three years up to six months for those with 25 years employment.

²¹ As a whole, the Hungarian labor market is characterised by more flexibility and less job protection. Persistently low levels of employment and activity can therefore be explained more by mass job losses related to the early transition period coupled with a dearth of reemployment perspectives for an obsolete labour force, as well as by social compensation (early and invalidity retirement schemes, generous child care allowances, etc.) and the hidden economy, helping to survive outside the labour market (cf. Köllő – Nacsá 2006).

Social dialogue, collective negotiations and individual bargaining

In the just-emerging market economy, with fragmented and asymmetrical labour relations in which the state still prevails, collective negotiations were structured around *macro-level* tripartism. The National Interest Reconciliation Council, born as early as 1988, was charged by the new Labor Code of 1992 to conclude tripartite agreements on the minimum wage and on 'wage guidelines' (recommendations on annual wage increases). Assembling state, labour, and employer representatives, this body, compensating the unions and successive governments for an obvious lack of legitimacy, encountered less difficulties in its operations than was the case in other CEEs²². An agreement was reached each year (except for 1995) on wage guidelines that oriented social partners towards moderation in negotiating wages²³. Average wage increases surpassed the recommended range in the business sector by 1 to 4%²⁴. In the public sector, exceptional pay increases were implemented in 2001-2002. The limits to tripartism are shown by failed attempts to reach a general 'social and economic agreement' urged by the social partners on several occasions (see supra p.2. and Héthy 1995). In 2004, to reinforce consultation over strategic issues and national programs, a new all-interest-encompassing forum, the GSZT (Economic and Social Council) completed the macro-level²⁵.

Compared to macro-level tripartism, *intermediate-level* collective bargaining is rather weak.

Following the single first wave of signatures of branch agreements in 1992, collective bargaining remained rare and occasional. The creation of thirty bipartite sectoral committees and of a centre for sectoral social dialogue in 2004 have not to date really modified this situation²⁶. Although a collective agreement for the construction sector was signed in 2005, in other sectors, employers have often attempted to withdraw from existing agreements, limiting to a dozen branches (those in which the unions are powerful or the employers few,

²²Employer opposition to tripartism has remained limited if one excludes 2000-2001, when they protested the doubling of the minimum wage decided by the conservative government, invoking the risks of losses of low-paid positions.

²³Note the unfruitful union efforts to sign tri-annual national wage agreements that linked salary increases to inflation. Only the 2005 agreement allowed an accord to be reached concerning tri-annual increases in the minimum wage, accompanied by the introduction of higher wage minima for "qualified" and "degree-bearing" employees.

²⁴As an illustration, the wage recommendations and effective gross salary increases were respectively 8,5-11% and 14,2% for 2000 ; 7-8% and 9,3% for 2004 ; 5,5-8% and 9,1% for 2007.

²⁵The GSZT comprises all employer organisations and trade unions represented in the OET (National Interest Reconciliation Council) and various business organisations – such as chambers of commerce and industry, associations of foreign-owned companies and commercial banks – as well as experts from the MTA (Hungarian Academy of Sciences), the Monetary Council of the MNB (National Bank of Hungary) and various NGOs.

²⁶A PHARE program ("Strengthening Autonomous Social Dialogue") helped to create these new institutions (discussed in Fóti 2007).

such as in the electrical energy or chemical sectors) the field of sectoral regulation. This is furthermore exacerbated by the weaknesses of employer organizations at the branch level. Linked to the limited number of organizations empowered to draw up sectoral agreements, most agreements are “multi-employer”²⁷ (in conformity with the Labour Code) signed separately by each member-firm. In addition, these agreements include an “opt-out” clause that allows employers to preserve their power over wages and working conditions. Another indication of the weakness of sectoral regulation is that the contents of the branch agreements concerning wages remains generally limited to the definition of the average increase, sometimes with the addition of a branch wage minimum. In total, sectoral agreements do not cover more than one tenth of employees of the business sector, and they have very little influence over negotiations at the firm level.

The model of labour relations thus far described is very loosely coordinated and extremely decentralized. At the *level of individual firms*, the development of collective negotiation initially limited to the public sector gradually expanded to include the bigger firms of the private sector, with an influx of foreign capital and new management approaches. By 1998, the majority of large companies (three quarters of those employing over one thousand and two thirds of those employing 500 to 1000) had at least a ‘basic’ collective agreement, but the overwhelming majority of enterprises remained without collective agreement (about 3% of all firms with 5 or more employees had a collective agreement). SMEs employing two thirds of the total, remained practically outside the scope of collective bargaining, concentrated in the segment of large units representing one third of total employment. An agreement on wages is attached only to a part of the collective agreements, in the business sector more than the half of firms employing over thousand had a wage agreement, covering more than two thirds of employees concerned, and one sixth of all business sector enterprises had such an agreement, covering more than two thirds of employees concerned. The highest rates are to be found in large manufacturing companies, utilities, financial services and also in public services²⁸. A number of collective agreements, however, do not function much more effectively than did their socialist antecedents (merely

²⁷Instead of covering the entire sub-sector, these agreements were concluded with an eye to guaranteeing common regulation for firms linked by ownership; this is the case of “holding companies” that grew out of large state companies that were “reorganized” into several companies, but also of multinational firms with several subsidiaries in Hungary. While on the level of groups of firms, unions enjoy greater bargaining power than they do in each firm, the contents of these agreements remain closer to those concluded at the firm level.

²⁸Figures from Koltay-Neumann 2006 are for 2004. Differently from multi-year and non-fixed-term collective agreements, wage agreement attachments are established annually in the months following the national agreement on the minimum wage and on recommendations for wage increases. Only the public sector draws up multi-year (typically three-year) wage agreements.

recapitulating legal arrangements), while one third of them make no reference to wages (be it in terms of average increases, wage minima, or base salaries²⁹).

Between 2004 and 2008, the number of firm-level collective agreements fell from about 1300 to 1040 in the business sector, and from 2000 to 1786 among public sector institutions, the number of multi-employer agreements fell from 70-80 to 61 for firms and from 10 to 3 for public institutions and the number of real branch level agreements in the business sector was a mere 19. In 2008 36% of all employees were covered, against 40% in 2004 and 45% in 1998, placing Hungary between Slovakia and the Czech Republic, all three well below the European average.³⁰ Coverage rates for MNCs follow more or less the general pattern, somewhat higher earlier and somewhat lower recently (cf. Neumann 2009)³¹.

Decentralisation and informal and individual bargaining might explain, among other factors, the low level of industrial conflict throughout the whole period. With a few thousand employees involved, except for two peaks (670,000 involved in 1991 and 217,000 in 1995) and two humps (40,000 in 2000 and 47,000 in 2007) in the second decade. Secondly, the overwhelming majority of the 92 strikes between 1999 and 2008 have been organised over pay claims, almost exclusively in the public sector (healthcare and railways) in reaction to health-insurance reform projects and austerity measures of the government, as the strikes of some railway and local public transport unions after the outburst of the crisis.³²

²⁹Note that the register of collective agreements does not elucidate the question of “base salary” in wage agreements signed since 1992. More generally, the register remains a tool that records highly flawed data. Although registration of collective agreements is mandatory since 1997, because of a lack of enforcement, many employers do not comply, often by non-notification regarding modifications and cancellation of agreements. Published since 2003 by the Ministry of Labor, the census thus includes a good number of agreements that have been broken or signed by companies that have subsequently gone out of business.

³⁰For example, in 2004, in the business sector, the number of employers covered by an agreement relating to a single firm was as high as 638,00 and for agreements affecting several employers, 264,000. In the public sector, the respective figures were 250,000 and 2,072 employees. The number of (re)negotiated collective agreements declined during recent years, extension remained at a low level (valid in the case of four sectoral agreements, of which the electricity and bakery agreements were renegotiated and reextended). Coverage rates, based on the Registry of Collective Agreements for Hungary, are not directly comparable to figures for Slovakia, with 50%, or the Czech Republic, with 25%, calculated for 2000 in Fialová (2010).

³¹In 1998, the share of firms having a collective agreement was 49% for domestic-owned firms vs. 46% in foreign-owned ones (employees \geq 50). For larger firms (employees \geq 300), Neumann calculates 68% for domestic-owned enterprises, against 37 to 84% for MNCs, depending on foreign-ownership share (total, majority or minority, respectively). Greenfields in exclusive foreign ownership show the lowest coverage by nature. Later coverage declined more in MNCs.

³²Conflicts somewhat intensified in 2006-2007 with 32 000 working days lost, against only 8 000 in 2004, involving 47 000 employees in 2007 against 8 500 in 2004, to show a decrease in 2008 with 8 000 employees involved and 25 000 days lost in 25 strikes, 24 warning strikes and 3 solidarity strikes (from Fazekas –Lovász_Telegdy 2009 and EIRO 2008). In 2008 a referendum against minor co-payment issues discouraged the government to intruduce des caisses privées d'assurance santé, in 2009-2010 expenditure cuts and railway-line closures mobilised some unions to industrial actions.

THE PATTERN OF LABOUR RELATIONS AND THE ROLE OF MNCs IN SHAPING THE 'HUNGARIAN MODEL'

The Hungarian system of labour relations shows evidence of cleaving to a pattern of very weak coordination and high decentralization. The central level, through the establishment of an interprofessional minimum wage and an agreement on wage guidelines in the Interest Reconciliation Council, became a platform for cooperation and a showroom for consultation for the social partners. The institutionalized tripartism of the state and of the union and employer élites goes well beyond the world of labour, exhibiting the external signs of corporatism without some of its essential attributes, such as confinement of wage/labour market competition and binding central wage coordination. With collective bargaining taking root at the company level and just a few industries (mainly in the public utility sector) having sectoral collective agreement, individual bargaining remains decisive, not only in the non-union sector but also in unionised companies having collective agreements. Thus supply and demand on the labour market have a direct role in wage setting and only company level agreements do have a regulatory function at least for a smaller set of companies.

The early implementation of tripartism and its relative effectiveness (as evidenced among others by low levels of conflict), did not suffice to ensure the development of collective bargaining, which was further impeded by weak sectoral regulation. In this context, the high level of decentralization of employment relations left ample room for informal and individual bargaining. Direct relationships between management and employees by-passing unions and kept and even reinforced their importance, not only within non-unionized SMEs but also in large firms, where employers have a choice between partners (unions and works councils), or where new technologies and new management methods "imported" by multinationals have further opened the field for these direct relationships to develop. In SMEs, self-employment, informal jobs, and hereditary tendencies towards individualism prevail (often tending toward '*débrouillardise*' or shrewd practices), whereas in large firms, including MNCs, these employee skills have been assimilated into the employer-initiated social dialogue.

This simultaneously new and ancient practice is integrated into an international tendency towards deunionization, individualization, and flexibilization, without breaking with the underlying *acquis* of (reform) socialism and circumscribes an employment relations system that resembles the Anglo-Saxon model in a number of respects³³.

Hungarian labour relations carry the imprint of MNCs, too easy to interpret in conventional terms of home country - host country effects. Certainly, it is not difficult to

³³Beyond the scope of labour relations, the fabric of the welfare system is woven along continental patterns containing more redistributive provisions, centralizing a higher share of GDP on the revenue side (cf. footnote 20).

identify home country effects in a particular subsidiary, but even at the firm level, global tendencies common to MNCs coming from different countries prevail over country-specific elements. On the other hand, MNCs are more than willing to converge with the host-country environment, in which one can identify at least as many country-specific as common post-socialist features mixed from surviving socialist practices/attitudes and elements picked from various Western countries' legislation, flavoured by some EU norms. Firms thus enjoy the host country's less confining regulatory framework and/or underdeveloped collective bargaining practices as compared to the more stringent regulatory and collective bargaining environment of their home country³⁴.

The pattern of labour relations has been shaped largely by the underlying macro-economic framework in which MNCs play an eminent role. In the Hungarian 'export-led' and 'FDI-based' growth and integration, 'intrafirm hierarchies within transnational enterprises constitute a distinctive coordination mechanism' as in the 'dependent market economies' model proposed by Nölke-Vliegenthart, 2009³⁵. Employment relations and practices proved to be rather persistent even in the face of the global crisis, threatening the underlying macro-economic model, the future of which depends to a great extent on how the MNCs behave, on their (re)location decisions, and on the shrivelling/abounding of FDI inflows³⁶. Employee-employer relations apparently are more resilient than employees or employers, both hit by the crisis, whose impact is felt not only in exports, production and financial markets, but also in the labour market in terms of employment, unemployment, and wages. However, the latter are deteriorating within the magnitude of changes already experienced prior to the global crisis, with industrial conflict remaining at its previous low level³⁷.

³⁴like Germany in general, and also France in the field of public utilities e.g.

³⁵Referring to this model, interpreted in the 'Varieties of Capitalism' (Hall-Soskice 2001) framework, Drahekoupil - Myant (2009) argue that with 'the prominence of foreign ownership... themes of enterprise finance or corporate governance, or the 'specific institutional advantages', are of much less relevance and need not be well developed...: those issues are resolved by the MNCs in their home bases'.

³⁶In 2008, FDI inflow did not decrease (EUR 4.4 billion, Hungarian National Bank data), in 2009 it fell by around 50% (Ministry of Economy and wiiw data). CEE is likely to keep its position and Hungary may again receive an annual EUR 3.5-4 billion FDI in the medium term (according to ITD Hungary) mostly depending on large scale FDI projects like Daimler-Mercedes plant at Kecskemét. In lack of new projects profit repatriation may take away benefits related to capital inflows and exports, as in the first half of 2009 when Hungary, along with Slovakia experienced a negative net inflow.

³⁷From 2006 on, tensions manifest themselves much more outside the scope of employer-employee relations, in political clash and party conflicts on a more and more concentrated party landscape.

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