

1996

Employee Representation in Economies in Transition: Discussion

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Citation

O'Leary, Christopher J. 1996. "Employee Representation in Economies in Transition: Discussion." Presented at the IRRA (Industrial Relations Research Association) Session, Forty-Eighth Annual Meeting, ASSA (Allied Social Science Associations) Conference, San Francisco, CA, January 5.

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Employee Representation in Economies in Transition

IRRA Session, 2:30 p.m., Friday, January 5, 1996

ASSA Conference, San Francisco, California

DISCUSSION

Christopher J. O'Leary

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The main conclusion of Richard Freeman and Elaine Bernard in *What can unions do in Transition Economies?* is that unions should work within the constraints they face to grow the economic pie, because there is no sense in fighting over the crumbs available now. Kim Hester and Trevor Bain in *Privatization, Unions and Employer Associations* argue that unions are not doing enough to advance the aims of high wages and favorable work conditions.

In the planned economies of central and eastern Europe, prior to the transition, all workers were union members. Unions were controlled by the communist party, and were granted a good slice of the economic pie by the party. This provided things like vacation resorts and cheap food stuffs to be shared by union members. Unions did not fight over wages or job security. Wages were set by central planners, and officially unemployment was zero. There was no need to either organize or strike. Union strength came from political position, not economic leverage or bargaining skill.

At the core of the pre-transition union structure were national industrial unions within each state monopoly. Above these were confederations of unions which operated at the national and regional levels. Union structures within enterprises were labor collectives, production committees, and brigades. The brigades were essentially work teams; the production committees were groups of work teams; and the labor collectives provided management input to organize production at the enterprise level. The focus of union leaders and work teams was to meet production quotas.

The current relative strength of state controlled versus independent unions is not clear from any of the session papers. Table 2 in Freeman and Bernard shows union membership density in state and private enterprises, but it does not show the shares of party controlled

and free unions. Derek Jones (1995) provides some insight on successor unions from a survey of union leaders in and around St. Petersburg, Russia in 1993. In that region, communist party membership is no longer a necessary credential for union leaders, and there is greater decentralization and democracy in unions. Present union structures still reflect the way state owned industry was organized. Unions without party controlled precursors are weak and rare. The economic vitality of the enterprise determines the strength of the union. Staffing levels of national and regional union confederations have shrunk by up to 70%, in part because of reduced union property holdings. Despite diminished union presence, Freeman and Bernard argue for continued political participation. Unions might exploit popular sympathies left over from recent universal membership.

On privatization and unions, Derek Jones (1995) cites Russian law which provides that in medium and large enterprises, the labor collective, which is union leadership at the enterprise level, has a major influence on decisions about the form of privatization. Hester and Bain could strengthen their paper by investigating similar provisions for other countries in the region. In the neuen bundesländern of Germany, when a state owned monopoly is privatized, smaller enterprises are established by insider managers who select the efficient segments of the former monopoly and try to abandon the remaining hulk. The resulting unemployment problem is huge, as must be the impact on union strength. What are the successor rules for unions in the smaller efficient enterprises and in the large state remnants? Are the same techniques for union busting which are practiced in the west, possible under laws in the former communist states of eastern and central Europe?

Freeman and Bernard argue that now is not the time for unions to strike for wage

gains, while Hester and Bain assert that wage bargaining skills must be developed. The high level of general price inflation experienced in most of the transition countries means relative price flexibility. So that even with rules like percentage wage increase ceilings or wages fund growth linked to productivity gains, there is reason for union advocacy on wages.

Freeman and Bernard outline a noble mission for unions in the transition period. They recommend unions monitor and influence privatization at the enterprise level, advocate national legislation favorable to unions, and intervene with employers for individual union members. They cite tri-partite groups as a useful mechanism for channeling input. Such groups are well established in Hungary and Poland. In both countries national, regional, and local employment policy is largely guided by tri-partite labor market committees.

The Political State Secretary in the Hungarian Ministry of Labor, Lajos Hethy (1995), in a recent paper in the *International Labor Review* documented a great tri-partite effort in Hungary. In the summer of 1994 the newly elected ruling coalition in parliament made up of socialists and free democrats joined together in an effort to construct a comprehensive social and economic agreement to cover the four years of government. The forum for deliberations was the tri-partite National Council for Reconciliation of Interests, which includes 6 union confederations and 9 employer organizations. While the effort ultimately failed, due largely to austerity measures resulting from International Monetary Fund targets for the central budget deficit, it achieved a dialogue and established a basic framework for policy formation.

From these papers we see that unions in the developing market economies of central and eastern Europe should cooperate to grow the economic pie, while at the same time refining bargaining skills to ensure a prominent place at the future banquet table.

REFERENCES

- Jones, Derek (1995). "Successor Unions in Transitional Economies: Evidence from St. Petersburg," *Industrial and Labor Relations Review*, Vol. 49, No. 1 (October), pp. 39-57.
- Hethy, Lajos (1995). "Anatomy of a tripartite experiment: Attempted social and economic agreement in Hungary," *International Labor Review*, Vol. 134, No. 3, pp. 361-76.

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Christopher J. O'Leary, Senior Economist

January 16, 1996

Kay B. Hutchinson, IRRA Administrator
7226 Social Science Building
University of Wisconsin
1180 Observatory Drive
Madison, WI 53706-1393

Dear Ms. Hutchinson:

Enclosed are two (2) final copies of my discussion presented at the session on Employee Representation in Economies in Transition which met at 2:30 p.m. on Friday, January 5, 1996 at the Forty-Eighth Annual Meeting of the IRRA.

For your convenience, I have also enclosed a Word Perfect 5.1 copy on diskette.

If you require any other materials, please contact me at the Upjohn Institute.

Thank you,

Christopher J. O'Leary

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Christopher J. O'Leary, Senior Economist

January 16, 1996

Professor Trevor Bain
Department of Management
University of Alabama
Box 870225
Tuscaloosa, AL 35405

Fax: 205-348-6695

Dear Professor Bain:

Enclosed is a written copy of my discussion presented at our session on Employee Representation in Economies in Transition at the Forty-Eighth Annual Meeting of the IRRA.

Again, thank you for inviting me to participate.

Sincerely,

Christopher J. O'Leary

copy.