



Social dialogue in Hungary: its rise and decline^{*1}

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Introduction

Hungary had a relatively well-functioning system of social dialogue in the 1990s,² covering labour, social and economic policies. Its backbone was the tripartite Interest Reconciliation Council, established in 1988, and those basic tripartite structures which developed their foundations in the 1990s. These structures gradually emerged over the decade and have slowly evolved to their current state: a system of institutions for the reconciliation of interests, or the social dialogue.

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¹ This article draws upon the author's forthcoming book: *Social dialogue and the expanding world. The decade of tripartism in Hungary and central and eastern Europe, 1988-99*, European Trade Union Institute: Bruxelles & Friedrich-Ebert-Stiftung: Budapest, in particular Chapter VIII.

² As evaluated by the European Commission (1997): *Agenda 2000. Az Európai Bizottság véleménye Magyarországról Európai Unióba történő jelentkezéséről*, Külügyminisztérium, Budapest, p. 59. We use the term of social dialogue in the broad sense nowadays used in the European Union, i.e. it is not limited to the autonomous dialogue of the social partners, i.e. unions and employers. As for tripartism, the ILO's approach is followed.

1. The institutional framework³

At its height in 1996-98, tripartism had three major institutions of national importance:

1. The Interest Reconciliation Council, IRC (in Hungarian: Érdekegyeztető Tanács, ÉT). This was the central institution of tripartism during 1988-99, established by the last Communist Government (1988) and revived and confirmed by the conservative Antall Government (1990). It covered the whole of the national economy
2. The Interest Reconciliation Council for Budgetary Institutions, IRCBI (in Hungarian: Költségvetési Intézmények Érdekegyeztető Tanácsa, KIÉT). This body had a shorter history: it was established in 1992 to cover the public sector – primarily public services (education, health services, cultural institutions, etc.)
3. The Labour Market Fund Steering Committee, LMFSC (in Hungarian: Munkaeropiaci Alap Irányító Testülete, MAT). This is the newest tripartite institution, established in 1997 by the Socialist-Liberal Horn Government to manage the financial resources of the Labour Market Fund allocated to employment policy.

The Self-Governing Bodies of Health and Pensions Insurance (in Hungarian: Egészség- és Nyugdíjbiztosítási Önkormányzatok) opened up further possibilities for unions and employers to influence public policies. In their five-year life cycle (1993-98), they took care of the Health and Pensions Insurance Funds and played an active role in social policy formulation and implementation.

It should be noted right away that these Self-Governing Bodies were not tripartite structures. They were bipartite, i.e. composed of union and employer representatives, but they were closely related to the tripartite structures and the tripartite social dialogue was realised within their framework.

The key institution of Hungary's tripartism in the 1990s was undoubtedly the Interest Reconciliation Council, for several reasons:

³ For a detailed description, see: Lado, M. (1997): *National tripartite structures in the labour field in Hungary*, Ministry of Labour: Budapest.

- firstly, it had the most lasting and the strongest impact on public policy formulation and legislation and, in one sense, on the processes of political and economic transformation
- secondly, it served as a foundation for the emergence of other institutions, as required by the division of tasks and specialisation, based on unions' and employers' involvement in public policy formulation and implementation. Both the IRCBI and the LMFSC started as committees of the IRC before becoming independent national institutions. The IRC provided the institutional framework for social policy consultations before the establishment of the Self-Governing Bodies of Health and Pensions Insurance. It resumed this role in 1996-97 and participated in the reshaping of these bodies in 1997
- thirdly, the rest of the tripartite institutions, or those institutions based on union and employer representation, were dominated by those national trade union confederations and employers' associations which had seats on the IRC.⁴

2. Performance: ups and downs

The mission of tripartism or, in the wider sense, of social dialogue between the government, trade unions, employers and other actors is, in our understanding, the maintenance of social peace and co-operation; the building of consensus; the mobilisation of social support for government policies, decision-making and legislation; and improving the professional quality of administration.

The ultimate indicators of its success are:

- to what extent social peace and co-operation is maintained and manifestations of public dissatisfaction (such as general strikes and mass demonstrations) evaded, especially in critical economic situations
- to what extent are government policies backed, beyond the government's obvious majority in Parliament, by other political forces and by society in general
- to what extent the population, including the vast majority of workers, employers and entrepreneurs, feels that the government policies

⁴ The Interest Reconciliation Council had six trade union confederations and nine employers' associations respectively in its workers' and employers' negotiating groups. The biggest trade union confederations were: MSZOSZ (National Association of Hungarian Trade Unions), SZEF (Trade Union Co-operation Forum) and ASZSZ (Autonomous Trade Union Confederation). For Hungary's industrial relations scene, see: Hethy, L. (2000): "Industrial Relations Background in Hungary", *European Industrial Relations Review*, Issue 313, February.

implemented and the laws passed are ‘of its own’, serving its interests, and thus accept and obey them.

The indicators of success refer to extremely complex phenomena, which are particularly difficult to grasp and quantify, so it is as difficult to provide a well-founded evaluation of the performance of national level tripartism – or interest reconciliation or social dialogue – as it is of the changing governments and parliaments of the 1990s. It is even more so because of the interdependence of the functioning and performance of the tripartite institutions and the given governments and legislative bodies.

In a nutshell, I see the major achievement of Hungary’s tripartism as the country being able to survive the extremely difficult period of political and economic – as well as social – transformation without serious social shocks, disturbances or ‘social explosion’, and the maintenance of an acceptable level of co-operation throughout this process.⁵

The Interest Reconciliation Council was elevated to the focus of public interest in Autumn 1990 when it negotiated a settlement, in a one-day sitting transmitted directly by Hungarian Television, to the taxi and lorry drivers’ blockade. This had paralysed the whole of the country, in the process mobilising the interest – in sympathy or antipathy – of the whole population. It was watched by most of the people, seated in front of their TV screens and holding their breath, and remarking how competent and professional were the union and employer negotiators faced with the awkward and amateurish ministers of the first Conservative Antall Government (1990-94).

The status and prestige then acquired by the IRC in labour relations and politics in Hungary went on to be strengthened by the developments of the next few years. In 1991-94, the finance ministers of both Conservative and Socialist-Liberal governments in office considered it of importance to secure the IRC’s support for, or at least its acceptance of, the draft acts they had prepared on the annual state budget and taxation, in the framework of the incomes policy agreements. The IRC’s importance was emphasised further in the first year of the Socialist-Liberal Horn Government (1994-98), as the longer-term general Social and Economic Agreement in the government’s

⁵ It should be noted that Hungary has been one of the most peaceful countries in central and eastern Europe: since the 1989 Strike Act, it has had annually one and a half dozen mostly insignificant instances of industrial action, except for two or three bigger and longer railway strikes – and the taxi and lorry drivers’ blockade of Autumn 1990.

programme was meant to be negotiated within the framework of the Interest Reconciliation Council.⁶

At the same time – since the establishment of IRC up to the present – several fluctuations have taken place in the role and importance of social dialogue. It is not to be denied that interest reconciliation in Hungary, like in any other central and eastern European country, has had successful and less successful – one could also say good and bad – periods and years.

It should be noted right away that these are not necessarily linked to definite governments, but rather to particular political and economic conditions. It would be a cheap and gross generalisation, lacking solid foundations, to suggest that social dialogue flourished in the period of left-wing Socialist governments while the rule of right-wing Conservative governments generally brought along its interruption or decline. In Hungary, the system of tripartite institutions was created and consolidated mostly in the period of the Conservative Antall Government (1990-94),⁷ and had its most successful period in the second part of the cycle of the Socialist-Liberal Horn Government.

3. Successful periods

In the view of the author, Hungary's tripartism, in the course of its career until now, has had the following successful periods or years:

- 1992/93, when the Interest Reconciliation Council achieved probably the most important agreement in its whole history, the 1992 November incomes policy package agreement.⁸ It was this deal which settled the conflicts between the trade unions and the first Conservative Government, opened up the way for the 1993 elections to the Self-Governing Bodies of Health and Pensions Insurance and to the works councils and public servants' councils, covered a large scope of incomes policy measures and led to the final elimination of government wage regulations in the business sector.
- 1996/98, when the Three-Year Agreement of Public Servants, hitherto the only long-term and general agreement in the history of tripartism in the country, was achieved by the Socialist-Liberal Horn Government (in March 1996) to reconcile workers with the reform of public services.

⁶ Hethy, L. (1995): "Anatomy of a tripartite experiment. Attempted social and economic agreement in Hungary", *International Labour Review*, Vol. 134, No. 3.

⁷ Just as social partnership in Germany has been supported both by the Conservative Christian Democrats and the Social Democrats. British Thatcherism can be looked upon as a marginal exception in Europe.

⁸ For a description and analysis see: Hethy, L. (1995): "Tripartism and public policy formulation in Hungary", in Kyloh, R. (Ed.) *Tripartism on Trial*, ILO Central and Eastern European Team: Geneva.

Under its terms, the Interest Reconciliation Council of Budgetary Institutions (ICRBI) was promoted to be an important institution in national wage bargaining and agreements in public services during 1996-98.

It was also in this same period that a series of agreements were concluded in the Interest Reconciliation Council on the Labour Inspection Act, on the establishment of the tripartite Labour Market Fund Steering Committee (LMFSC) and of the Labour Mediation and Arbitration Service, and on the reconstruction of the IRC itself – all in 1996; on pensions reform and on the 1998 draft acts on the state budget and taxation – in 1997; on the ratification of the Social Charter of Europe – in 1998; while routine annual wage agreements for the business sector were also reached.⁹

It was also a development of this period that regular meetings took place between the Prime Minister and the top leaders of the national trade union confederations and employers' associations, under the auspices of the IRC, to discuss such issues as the utilisation of surplus revenues from privatisation, the promotion and strengthening of collective labour relations, the renewal of the Self-Governing Bodies of Health and Pensions Insurance, and a great number of economic policy issues.

Formal and official meetings between the government and the social partners – primarily the trade unions – were complemented by frequent informal and unofficial contacts, which developed into a kind of everyday working relationship, taken care of by the Ministry of Labour.

The system of tripartite institutions of Hungary – including the IRC, the IRCBI and the LMFSC, as well as the related Self-Governing Bodies of Health and Pensions Insurance – acquired its full dimension and was at the zenith of its political influence in these years of the Socialist-Liberal Government. It is far from being an unjustified exaggeration to look upon the period of 1996-98 as the 'golden years' of interest reconciliation, or national social dialogue, in Hungary. In this period, the functioning of the IRC – and of the other institutions – became well balanced, following up the rules commonly set and lacking the bitter political and ideological – as well as, frequently, the personal and emotional – confrontations of the earlier years. The foundation for such practices was provided by the improving situation of the national economy, by the strong mutual commitment of the Horn Government, and of the unions

⁹ Munkaugyi Miniszterium (Ministry of Labour) (1998): *Munkaugyi politika es munkaugyi folyamatok* (Labour policies and labour processes), Budapest.

and employers to interest reconciliation, compromise seeking and consensus building. The government's behaviour and style became relaxed and well-balanced, and was not lacking in empathy and tolerance towards the partners on the other sides of the table.

4. Critical periods

National interest reconciliation – social dialogue – has also had less successful or, one could say, critical periods in Hungary:

- 1991, when the first Conservative Government, after it had contributed to the re-establishment of the Interest Reconciliation Council with a reinforced organisational structure and extended authority in 1990, launched a politically and ideologically conceived attack against the old reformed trade union confederations, primarily MSZOZS, by initiating the two infamous trade union laws¹⁰
- 1995, when the Socialist-Liberal Horn Government, although it was strongly committed to interest reconciliation, a factor which was never called into question by the social partners, had to close the negotiations aimed at the Social and Economic Agreement and to embark on unavoidable macroeconomic stabilisation measures – despite the protests of the trade unions and the employers within the IRC
- 1998/00, the first two and a half years of the second Conservative Government, can be qualified as the most recent critical period of interest reconciliation – that of the ‘emptying’ of the social dialogue in Hungary. In this period, the institutions were reformed or reshaped, but the political will to be engaged in substantial talks has been painfully missing.

The Horn Government's critics, including the big trade union confederations, tended to look at that time in 1995 as the ‘lowest point’ or the ‘black year’ of interest reconciliation. It is absolutely true that no agreements were concluded

¹⁰ Act No XXVIII of 1991 obliged the trade union confederations to report on their assets, while these were then sequestered, bank accounts blocked and a provisional body, VIKSZ (Vagyont Ideiglenesen Kezelő Szervezet – the Board for the Provisional Management of Assets) empowered to protect them until their final redistribution had taken place, within a one-year period, on the basis of the results of the envisaged trade union elections and the approval of the Parliament. In the four-member VIKSZ, the large confederation MSZOSZ had 1 seat, and the small Liga and the similarly small Workers' Councils 1 each, while the rest of the confederations – including the large SZEF and the strong ASZSZ – had 1 seat between them. Act XXIX of 1991 prescribed the renewal of the check-off authorisations by which trade union members could have their membership fees deducted from their wages. The former Act, in particular, was sharply criticised and opposed by the big trade union confederations, primarily MSZOSZ. 1991. évi XXVIII. Törvény és az 1991. évi XXIX. Torvény. Magyar Közlöny. No. 80/1991. 17th July 1991.

and that the participants in the IRC in 1995 were not exactly joyful, but intensive consultations did take place. In the summer, the trade union confederation MSZOSZ even raised the idea of a possible wage and price agreement, to which the government reacted positively, although its achievement – in the context of economic stabilisation and after the liberalisation of consumer prices – was far from being realistic. For similar reasons, the 1995 incomes policy negotiations – concerning the 1996 state budget and taxation – were not able to yield results.

The government, eventually, had to take note that the trade unions were not in a position to approve further government measures laying new burdens on the shoulders of workers without the risk of seriously losing face. Labour organisations too, in their turn, had to accept that the government could not slacken the emergency measures without risking the success of the stabilisation programme. The latter acknowledged subsequently that macroeconomic stabilisation was not only necessary and unavoidable, but it also had its benefits: for example, it laid the foundation for sustainable economic growth and also for the restarting of real earnings growth.¹¹

The agreements achieved are looked upon in general as the most presentable and quantifiable indicators of the success of interest reconciliation. In our view, in emergency economic situations, it is an indicator of similar value if the negotiating partners – even if they cannot come to terms – do not stand up and leave the table but remain there and do their best to understand each other, instead of taking their membership and the population out on to the streets.

An absence of mutual understanding and agreements may justify questions and lead to concerns, given the economically favourable situation in which Hungary has been living since 1997, thanks to the stabilisation efforts of 1995/96. Namely, this represented a positive turn in the economy which made it possible, already in the second half of the Socialist-Liberal Government, for this to become a real ‘success story’.

The present Orbán Government, when it took office, emphasised its commitment to interest reconciliation and promised to ‘raise it to a higher level’. It carried out a restructuring of the tripartite institutions, including the changes which had also been considered to be much needed by its predecessor. However, the final result of the process was a new institutional framework that was virtually stillborn, without practically any performance – as we will

¹¹ It is ironic that these facts are still denied and the Horn Government still blamed for the macroeconomic stabilisation programme of the Conservative Orbán Government which is, politically and economically, a major beneficiary of the macroeconomic stabilisation provided by the ‘Bokros package’.

see – while relations with the social partners, primarily with the unions, cooled to below freezing point.

A critical state of affairs in social dialogue is always the outcome of the complex interplay of several conditions and the following sections seek to provide an overview of these.

5. Reforming institutions

The institutional reform of the structures for social dialogue had been put on the agenda as early as 1996 by the Horn government, after the failure of the Social and Economic Agreement. Various suggestions were made with the aim of adapting the structures to the new changing conditions in the economy and society, looking for possibilities, among others, for the involvement of the newly-emerged important economic actors (such as multinational companies and chambers of economy), for the setting up of clear and democratic rules for participation (based on representativeness), etc.

It was also suggested that an Economic and Social Council should be set up for general policy consultations, with a wider circle of economic actors, and the IRC and the IRCBI promoted into the key institutions of interest reconciliation in the business and the budgetary sectors respectively.¹² It was a fundamental principle that these changes should be proceeded with on the basis of the consensus of those concerned. Unfortunately, no significant reforms were achieved at that time, but some major items in the proposals were taken on and put into practice by the successor Conservative administration.

The Orbán Government had a differing – and, in the view of many, arrogant and aggressive – approach concerning the reform of interest reconciliation, and imposed its will on the social partners.

It is true, because it corresponds to the pure values and principles of tripartism – and is more attractive too – that consensus should be sought. Nonetheless, one should be aware that structural changes of institutions touch upon, and often also damage, the interests of those concerned and often cannot be managed on the basis of consensus, to the satisfaction of all. In such situations, unilateral government measures may be necessary, or even inevitable. It was under serious consideration by the Horn Government, if it had remained in office after the 1998 elections, to carry out the reconstruction of the tripartite institutions by unilateral government initiative via legislation, after due

¹² Magyar Szocialista Part (Hungarian Socialist Party) (1998): *A munka világa* (The world of work): Budapest.

consultations with the social partners. Government (or Parliamentary) authority for the setting up of institutions for social dialogue cannot be disputed in any constitutional democracy.

What can be much debated is the precise professional quality of the measures carried out by the second Conservative Government, the political motivations and the government philosophy that lay behind them, and their consequences for the process of interest reconciliation in Hungary.

6. 'Emptying' interest reconciliation

The Interest Reconciliation Council was dissolved, sacrificing in the process the 'trademark' name of the key body of social dialogue, and replaced by two new institutions – the National Labour Council, the NLC (in Hungarian: Országos Munkaügyi Tanács, OMT), and the Economic Council, the EC (in Hungarian: Gazdasági Tanács, GT). These took over (most of) the IRC's functions.

The National Labour Council is heir to all of the functions of the IRC in the field of interest reconciliation in labour issues and policies (including the setting of the national statutory minimum wage, adopting and issuing recommendations for gross earnings growth in the business sector, pre-legislative consultations on labour law, etc.).

The NLC's limitation to interest reconciliation in labour issues, however, prevents it from substituting fully for the IRC. It does not cover economic (income) policy issues, so it is not in a position to be engaged in incomes policy consultation and to achieve incomes policy agreements, as its predecessor had done.¹³ In our view, the separation of wage negotiations and incomes policy consultations was not a step forward but rather a backwards one as far as interest reconciliation in labour issues was concerned. It also risked leading to an impossible situation in wage negotiations in the business sector.

It had already been a major weakness of national wage negotiations in the business sector that these lacked an institutional linkage to economic (incomes) policy consultations although this was, to some extent, compensated for by the condition that the IRC undertook such consultations – sometimes even directly related to the wage negotiations – and occasionally achieved incomes policy agreements. This weakness is not compensated for at all within the new NLC.

¹³ Incomes policy consultations, in principle, take place – at the request of the social partners – directly with the Ministry of Finance, outside of the framework of the NLC.

The topic of national wage negotiations is the growth of gross nominal earnings, but all the participants have in mind real earnings and income – of workers, of entrepreneurs and of the state budget. That is why these negotiations – and the agreements achieved – tend to float over actual realities and bring about unexpected and unintended practical outcomes for the participants where the other conditions which have an impact on real earnings and real income (such as personal income taxation, taxes imposed on undertakings, duties imposed on earnings, the growth of consumer prices, etc.) are not involved. National wage agreements throughout the 1990s were meant to maintain the level of real earnings, but considerable drops did occur.¹⁴

Separate wage negotiations over nominal gross earnings could function effectively only if Hungary had a stable system of taxes and duties imposed on earnings and a low rate of inflation. For the moment, none of these conditions are provided.

In spring 1999, the Orbán Government undertook an initiative – in spirit very reasonable – to establish a negotiated relationship between GDP and real earnings growth. In the tense atmosphere, on the eve of the dissolution of the Interest Reconciliation Council, this was rejected by the social partners. However, it is one that is worthy of further consideration, discussion and the working out of the technical details.

Nonetheless, it should be noted that, if the topics of tripartite talks are real earnings, then these are no longer wage negotiations but incomes policy negotiations.

It did not help to build the mutual confidence needed for such exercises that the government and its legislation ripped away from the NLC its most important exclusive prerogative, the setting of the statutory minimum wage.¹⁵

In other respects, the NLC – as far its participants, structure and internal regulations are concerned – shows no change compared to the IRC. This means that very few of those problems in its operation which accumulated in

¹⁴ See the paper by M. Lado and E. Berki on Hungary in Vaughan-Whitehead, D. (ed.) (1998): *Paying the price. The wage crisis in central and eastern Europe*, Macmillan Press: London & St. Martin's Press: New York.

¹⁵ Act XXII of 2000 ruled that the deadline for the National Labour Council to reach agreement on the statutory minimum wage was 10 September of the previous year. If no agreement was achieved 15 days after this deadline, the government became entitled to take a decision on the issue. The date by which agreement had to be reached for 2000 was fixed at 25 November by Act CXIII of 2000. The original 1992 Labour Code reserved an exclusive right to the IRC, the predecessor of the NLC, to set the statutory minimum wage.

the course of the 1990s, impeding its effective functioning, have been addressed.¹⁶

7. 'Audiences' substitute dialogue

The Economic Council (EC) was established for economic policy consultations. It has a wider circle of participants than the IRC and is not a tripartite institution.

This initiative was justified as, in the 1990s, important new actors, such as the chambers of economy, multinational companies, the financial sector (banks and insurance companies), organisations of investors, etc. had appeared in the national economy at the very 'gates' of the Interest Reconciliation Council. These actors, like the trade unions and the employers on the IRC, should have been provided with the possibility for economic policy consultation.

In 1997, the Horn Government had started negotiations, outside of the IRC, with the chambers of economy, multinational companies and the Bank Association, and it also set down a proposal, as described earlier, to set up a Social and Economic Council similar, in its functions and participants, to the new Economic Council.

In 1999 and 2000, the Economic Council was convened and held sittings on several occasions, with the participation of the Prime Minister, in which economic ministers provided information on developments in the national economy and on the government's economic policies. These meetings have been nicknamed 'audiences' – with or without proper reason, but at least with some irony – by trade unions and employers.

One of the leading figures amongst the employers comments thus:

In those years, when the reshaping of the Interest Reconciliation Council made extremely slow progress, several fundamental problems were raised, for which the new structures of interest reconciliation provide now a certain solution. The National Labour Council, in a certain respect, is a direct continuation of the Interest Reconciliation Council. In the new structures of interest reconciliation, two types of interest reconciliation are split off and realised, on one hand via the National Labour Council and, on the other, via the Economic Council. Today, it cannot be seen clearly yet whether the Economic Council provides an adequate framework for interest reconciliation on macroeconomic issues. On the part of the interest representation

¹⁶ A notable exception is the adoption of rules on representativeness, as suggested by the Government.

organisations, the target is not to have co-decision rights, but to participate in the preparation of decisions. For them, the Economic Council is not an adequate institution, as it provides the opportunity for ceremonial speeches but has no background structure, while no intention seems to exist to build one up. This country is in need of target-oriented functioning. Legislation could be assisted very much by the organisations of interest representation, in making visible those interests which cannot otherwise be directly seen either by the legislators or by the executive power.¹⁷

8. The exclusion of public services

The Interest Reconciliation Council of Budgetary Institutions (IRCBI), after one and half years of neglect, was also dissolved by the Orbán Government in October 1999, putting an end to the national wage negotiations for public services which had developed during 1996-98.

This measure was difficult to understand and to interpret, even by political experts, as the government had earlier indicated that it would withdraw from wage negotiations for the business sector, leaving the field to unions and employers, but that it had the intention of remaining present where it was the employer, notably in the budgetary sector. As a follow-up, it then eliminated the IRC and sat in its place, assuming a much more aggressive role in the wage negotiations of the business sector than had any of its predecessors.¹⁸

Setting salary growth for the budgetary sector, including public services, was left to the government and legislation and, where it was permitted by law, to local wage negotiations. This development was far from favourable for those concerned. Firstly, the legislation, and the government – despite the promises of the election campaign – proved to be extremely tight-fisted as regards public service salaries. In 1999, for example, the public service salary scale was not increased by parliament.¹⁹ Secondly, local trade unions were not in the

¹⁷ István Orbán, the President of MMSZ-MGYOSZ (Hungarian Employers' Association – National Association of Hungarian Manufacturers), interview in *Világgazdaság*, Budapest, 28 September 1999.

¹⁸ It should be noted, in parallel with the elimination of the IRCBI, that István Stumpf, Minister in the Prime Minister's Office, initiated separate closed negotiations on public service salaries with SZEF (Trade Union Co-operation Forum), the biggest public service confederation and the predominant force in IRCBI's workers' negotiating group. In the National Labour Council, the agreement on the 2000 national statutory minimum wage was achieved after difficult negotiations and without adopting recommendations for gross earnings growth as a result of the government's approach.

¹⁹ It was only in 2000 that the Conservative government declared its programme for considerable wage increases in public services, which had been promised by it before the 1998 elections.

position to fight for salary increases, taking into account the strict financing levels which were in place for budgetary institutions.²⁰

At the same time, the predominance of local wage bargaining and wage agreements in public services could also involve the danger of growing and unjustified salary differentials between professional groups, institutions or branches, while the major pressing general problems continued to exist. Consequently, the 'gap' between public service salaries and business sector wages have kept increasing, while salaries in Hungarian public sector institutions have lagged behind European ones to an even more painful extent than the wages paid in Hungarian business organisations. In addition, this lagging behind can only be partly explained and justified by the relative performance of Hungary's national economy.²¹

On the part of the Orbán Government, both the elimination of the IRCBI and its whole attitude towards salaries in public sector institutions – i.e. the sweeping of the grave problem of wage distortions under the carpet – has presented a very negative signal to workers and unions in the public sector.

Two further negative changes were quietly carried out by the present Conservative administration, which cannot be looked upon as 'institutional' in the strict sense of the word, as they did not touch upon the institutions based either on legislation or on formal agreements between the parties.

Nevertheless, they still had an impact on social dialogue and on the government's relationship with trade unions and employers:

- firstly, it discontinued the high-level regular political meetings between the Prime Minister and the top leaders of the national trade union confederations and the employers' associations
- secondly, it also put an end to the practice of the frequent informal consultations between the government and the social partners, primarily the trade union confederations, which became normal elements in the social dialogue during the cycle of the Socialist-Liberal administration.

On the basis of these developments, the observer can risk the statement that the 1998-00 period has been, despite the institutional changes being advertised

²⁰ The hospital's trade union secretary – a nurse or a doctor – would not exercise pressure on the director/chief medical officer to raise salaries instead of purchasing medicines or paying the electricity bill.

²¹ When calculated based on the currency exchange rate, Hungarian average earnings amount to 10% of the European average, while Hungary's GDP per capita amounts to 20% of the European average; if calculated on the basis of purchasing power parity, the same percentages are about 30% and 50%. Internationally, employees in education (who are mostly highly qualified) have higher average salaries than national average earnings but in Hungary – together with salaries in health services – they are instead far below the national average. Source of data: Ministry of Economy, 1999.

as positive and justified, one of the ‘emptying’ of national interest reconciliation in Hungary.²²

9. No role for the social partners in national politics

In the philosophy of the Conservative Government, trade unions and employers are entitled to be present in the process of national interest reconciliation – which the Government prefers to call social dialogue, borrowing the European terminology. They are entitled to be informed and consulted but government decision-making and the preparation of legislation cannot be the subject of tripartite agreements as these are within the exclusive authority of the executive power. Such deals are not required, as they limit the government, and parliament, in their sovereign freedom of action to formulate and impose their political will. It was postulated in a straightforward and open way that, for unions and employers, there was no place in national politics.²³

As to this governing philosophy, two well-founded questions emerge:

- firstly, if the Conservative Government thinks that there is no room in national politics for the organisations of labour and capital, then why does it still maintain, even if with reduced functions and influence, the national institutions of interest reconciliation? Namely, what the National Labour Council and the Economic Council have on their agenda is national politics, viewed from any angle, and those who participate in their discussions are, consequently, actors in national politics, even if they are of limited influence
- secondly, how does the governing philosophy of the government fit today’s European realities?

It is widely known that, in most countries of Europe, trade unions and employers’ associations outgrew some decades ago their traditional narrow functions as organisations of interest representation. No modern trade union organisation considers the struggle for higher wages and better working conditions for workers to be its exclusive function, thus limiting its battlefield

²² For the ongoing public debate on the subject, see: Ory, Csaba (government): “Tekintetbe veszi a kormány a partnerek véleményét” (The government takes into consideration the partners’ opinions), *Nepszava*, 2 January 2001; David, Ferenc (employer): “Soha nem volt ilyen mélyen a párbeszéd” (Social dialogue has never been at such a low point), *Nepszava*, 2 January 2001; Hethy, Lajos: “Mestersegesen provokált, kicsinyes konfliktusok” (Artificially provoked conflicts of pity), *Nepszava*, 3 August 2000.

²³ For a very good illustration of the government’s philosophy, see István Stumpf, Minister in the Prime Minister’s Office, in the interview: “Esély a konszolidációra” (The chances of consolidation), *Nepszava*, 19 December 1999. Mr. Stumpf emphasised that, for the functioning of the unions, the desirable point of gravity is the workplace and the representation of workers’ interests, which is to be reinforced and has to be made more effective. As for this part of his statement everyone, including this author, can agree.

to the workplace. Both unions and employers' organisations have also become actors in national politics as, in this period, the representation of the interests of their constituencies could be realised most effectively in this way. They are in strong positions in this respect in most European countries, and they are also present similarly in the decision-making and legislative machinery of the European Union.

That is why I think that the answer to the first of these two questions can be found in the second question and its answer. Hungary's accession to the European Union is on today's agenda and it is not permitted to any government to destroy, without risking grave international consequences, the institutions of social dialogue in Hungary regardless of the extent to which they fit its philosophy, the exercise of power or the functioning of democracy.²⁴

10. Attempts to weaken the social partners

Nonetheless, no external (or internal) obstacles have prevented or impeded the Conservative Government from taking a series of measures, in line with its philosophy and political interests, which have had the tacit or explicit target firstly of weakening the actual positions of its social partners, primarily the trade unions, which are looked upon with suspicion as being 'left-wing' or too close to the Hungarian Socialist Party (MSZP), and then of pushing them out of the national political arena. In the view of the author, without making the effort to provide a full list, the major measures have been as follows:

1. The structure of central state administration was reshaped in summer 1998. The Ministry of Labour (1990-98) was eliminated and its functions distributed between the new, successor Ministry of Social Affairs and the Family, the similarly new Ministry of the Economy, and the Ministry of Education.

Looked at from the viewpoint of the social partners, this kind of restructuring heralded the danger – which, in the meantime, has come true – that, for the lack of one responsible government agency, issues of labour and employment policy, as well as of the social dialogue, would be thrust into the background or to the bottom of the government's agenda, and that difficulties would occur in contacts between the government and the trade unions and employers.

²⁴ The Economic and Social Council of the European Union called upon the Hungarian Conservative Government to 'restore social dialogue' in a document in early 2000.

It should be noted that almost all European countries have ministries of labour or ministries of labour and social affairs.

2. The Self-Governing Bodies of Health and Pensions Insurance were dissolved and the social insurance funds put under direct governmental control, in one of the very first measures taken by the Conservative government and its parliament.

It is beyond doubt that the scandals of the previous years – rumours about mismanagement and alleged corruption, primarily involving the Self-Governing Body of Health Insurance – did supply the Government with abundant arguments to justify this measure in public. However, at least two questions have remained unanswered. Did the poor management of these bodies provide appropriate justification for the general questioning and rejection of the model of insurance self-governance, which has been operating successfully in a number of democratic free market economy countries? And is the ‘nationalisation’ of the social insurance funds, of which Hungary has long historical experience during the past decades, a guarantee in itself of the better management of these assets?

This measure caused serious losses for the employers’ associations and trade union confederations constituting the Self-Governing Bodies, primarily the National Association of Hungarian Trade Unions, MSZOSZ. However, it has not brought positive changes in the functioning of the social insurance funds.

3. The amendments to the Labour Code and the Employment Act, which were passed despite the protests of the IRC and, later, of the NLC, have resulted, wittingly or unwittingly, in a weakening in the protection of workers and of the unemployed. They have also weakened the position of the trade unions or, at least, have irritated them.

It has also irritated the trade unions that works councils – the enterprise-level institutions of workers’ participation – were given the right to be engaged in collective bargaining and to conclude collective agreements ‘in the absence of trade unions’.

Works councils, by their mission and their governing principles, are inadequate for such tasks. They are established for co-operation with employers and, consequently, they are not permitted to organise or take part in industrial action, whereas collective bargaining and strikes, and the related rights as guaranteed by international labour standards, are inseparable. In practice, where there exists no trade union organisation, in most cases neither is there a works council, as promoting works council

elections is a primary interest of trade unions as a means of proving their representativeness and taking sanctions against the employer's failure to organise them.

It has to be added that there is no example in Europe, disregarding one or two very special cases, where works councils have assumed trade union functions and, where attempts have been made to this end, as they were in central and eastern Europe in the early 1990s, they have been strongly opposed by the trade unions.²⁵

The 1999 Amendment to the Employment Act reduced the length of entitlement to unemployment benefit to nine months and eliminated income support for the unemployed.

4. An Act has been passed revising the status of the chambers of economy and eliminating their mandatory membership and fees.

This initiative has endangered the existence and functioning of the chambers – the organisations of (employers) undertakings which were established in 1995 to perform certain public duties – which had built up their organisational structures and, mostly, consolidated their positions *vis-à-vis* the state administration by 1998.

Having finished the above list, the author – and most probably the reader – cannot resist a certain feeling of *déjà vu*. Similar developments had already taken place in 1991 in Hungary in the confused second year of the first Conservative government, as well as in a number of other central and eastern European countries in their first confused period of political and economic transformation. They seem to be out-of-date and out-of-place as, in the present critical period of Hungary's accession to the EU, and in the context of the challenges of globalisation, a close and smooth co-operation between workers' and employers' organisations and the government is of growing importance, both in the internal and the international political arenas, in reinforcing the protection of workers, the population and the national economy. Nonetheless, it is the international context which provides grounds for a certain moderate optimism.

11. On the way to Europe

To be engaged in institutionalised dialogue, to talk to each other – to make the machinery and institutions of interest reconciliation work – was a free choice

²⁵ The ICFTU (International Confederation of Free Trade Unions) and the ETUC (European Trade Union Confederation) have also protested against this Amendment to the Labour Code.

of governments, trade unions and employers during the 1988-96 period. Today, it is no longer so.

Hungary's accession to the European Union will involve the participation of the Hungarian social partners in European social dialogue, while the preparation of the country for membership includes trade unions, employers and other organisations of interest representation, with the latter already playing their part in the process of accession.²⁶ The institutions of social dialogue in the country – and their participants – are faced with new challenges.

The Interest Reconciliation Council was faced for the first time in its existence, when the Labour Code was to be amended in Spring 1997, with the situation that the shaping of Hungarian labour law was no longer an issue of 'free collective bargaining' between the three partners but that it has to be adapted, because of Hungary's obligations of legal harmonisation, to the set of European directives (e.g. to those providing protection for workers in cases of the employer's insolvency, changes in the employer's identity, collective redundancies, etc.) And the 1997 package of amendments was only the first step, as several other social directives and labour safety regulations have to be taken on and the body of labour law continually adapted to changes in the European regulations.

Hungary's accession will also have a more profound and wider, albeit indirect, impact on employees' working and living conditions. It will open up the possibility for Hungarian workers to appear on the European labour market, either immediately or somewhat belatedly, on the basis of freedom of movement which, in its turn, will have a positive impact on the level of earnings in the country. No obligation is imposed on Hungary to adapt its wage level to the European average, but its accession will, most probably, add to the internal and external political and social pressures to increase the level of earnings, as and when this is made possible by economic performance and growth, without threatening the balance of the national economy. Neither can the effort by the European Union to increase the rate of employment – or to reduce unemployment – in the member countries be ignored.

It is obviously a positive external condition for the further development of labour relations in our country that the European Union is committed to social dialogue, to collective bargaining and agreements – and that it is trade union- and employer-'friendly'.

²⁶ Reference is made to the Joint Parity Consultative Committee, set up in 1997 from among the delegates of the IRC and the Economic and Social Council of the European Union, and encouraged to make its comments on any of the economic and social issues involved in Hungary's accession.

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