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## **Illusory corporatism in Hungary. Case study**

### **Introduction**

The phenomenon of corporatism, which has existed in various forms for over 2500 years (for instance in the Ancient Greece and Rome [Hegel 1969, p. 233], in the Medieval Europe [Bartyzel 2003, p. 140] or in the authoritarian and fascist states in the twentieth century [Streeck, Kenworthy 2005, pp. 441–442]), played a crucial role in the process of policy making in the majority of West European countries after Second World War. It should be underlined that even since then it has been interpreted differently. Corporatism was perceived either as a differentiated system of interest representation (Schmitter 1974, pp. 93–94) or as a specific model of policy formation (Baccaro 2003, p. 685). It was also analyzed through the prism of the process of political exchange concerning economic policy and industrial relations, in which the government and definite interest groups took part (Molina, Rhodes 2002, pp. 321–322). In this article corporatism was examined via last approach due to the fact that the exchange of the political resources between the public authority and certain interest groups constitutes the essence of the phenomenon. It was defined as a system of formulating economic policy, in which the government and the sectional, inside, economic interest groups (representative trade unions and employers' organizations) seek to achieve their political interests through the political transaction.

Depending on the country and time corporatism was functioning very differently. In simplification, it can be said that there have been two versions of corporatism: classic and lean. First one can appear in the state when the following conditions are fulfilled: trade unions should be very strong organizations, which possess many political resources (for example high number of members, considerable property holdings, high capacity for mobilization, think tanks); the government ought to pursue Keynesian policy (the state

controls the level of unemployment and the process of individual income distribution [Herbut 2003, pp. 146–147]) and there should exist social democratic consensus among political elites, which assumes ensuring economic and social security. This version of corporatism was defined as a system of formulating economic policy, in which the government and the sectional, inside, economic interest groups (representative trade unions and employers' organizations) engage into the political exchange assuming expansion of the welfare state and increase of the trade unions' rights in return for the provision of social peace and limitation of wage demands. It functioned mainly from 1945 up to mid-seventies.

Lean corporatism emerged in Western Europe because of the radical socio-economic changes that occurred in seventies. In this period trade unions lost some political resources (for instance the degree of unionization fell dramatically), but they remained relevant organizations. On the other hand, employers became stronger in relation to employees than twenty, thirty years earlier (for example they have been able to move their enterprises to other countries easier and quicker, they also have taken advantage of new, more flexible forms of employment that were introduced). The majority of governments replaced Keynesian policy with monetarist one, which was tantamount to rejection of the welfare state. It is worth underlining that both right-wing and left-wing politicians, due to different reasons, acknowledged that the concept of welfare state is unfavorable for the citizens (Carpenter 2003, p. 571). New variant of corporatism was defined as a system of formulating economic policy, in which the government and the sectional, inside, economic interest groups (representative trade unions and employers' organizations) engage into the political exchange assuming reduction of welfare state and wage demands in return for protection of workplace and genuine integration of these organizations into the process of policy decision making. Lean corporatism still exists in some West European states.

Some scientists mistakenly assumed (this mechanism was thoroughly analyzed by Ost [Ost 2000, pp. 506–509]) that at least one of the so far existing versions of corporatism would operate in the post-communist countries (such as Hungary), because of the fact that new, democratic governments established tripartite commissions. It turned out however, that the political exchange, which is concluded during tripartite talks in these countries, is

completely different (and significantly less favorable for trade unions) from transactions occurring in the classic or lean corporatism. The following hypothesis has been advanced in this article: in Hungary there has appeared and prevailed a new version of corporatism (illusory) after regaining independence in 1990. Illusory corporatism should be understood as a system of formulating economic policy, in which the government and weak (i.e. having few political resources), sectional, inside, economic interest groups (representative trade unions and employers' organizations) engage into the political exchange assuming that abovementioned organizations legitimize political decisions, which are usually beneficial for employers, made autonomously by the government and marginalization of the trade unions' role at the company level in return for retention of the basic, mostly symbolic privileges in the enterprises and within political system by trade unions.

In order to find a confirmation of the hypothesis there was a method of decision-making adopted. It consists in analyzing socio-political processes through the prism of: a decision centre (i.e. an object of political action), a decision making process (i.e. a network of causal relations concerning examined topic), a political decision and political implementation process (Chodubski 2006, pp. 130–131).

### **Political actors within corporatist system in Hungary**

There are 9 representative employers' organizations and 6 representative trade unions (Towalski 2011, pp. 167–170) that have participated in the system of formulating economic policy in Hungary and constituted illusory corporatism since 1990. All of them fulfill a basic condition of the phenomenon – they are weak and do not have enough political resources to effectively affect the government's economic policy. For many years employers' organizations were mainly composed of managers of state-owned companies (Ost 2000, p. 511), which were appointed by the authorities. They were thus controlled indirectly by the government and supported majority of its political initiatives. The employers' organizations have rarely opposed to the government's decisions also due to the fact that many of them have been consistent with their political interests. It explains why they have not engaged deeply into tripartite negotiations through analyzed period of time.

There are at least three proofs for the Hungarian trade union movement's weakness. Firstly, every representative trade union has low capacity for mobilization. Apart from the taxi driver protest that occurred in the biggest cities in 1990, there were no mass strikes in Hungary in the first decade of the country's independence (Girndt 2001, p. 17), although the government took many unfavorable decisions for workers in those years (some examples were presented in the further part of the article). Trade unions took part in some large protests against government's policy, especially between 2006–2009. It should be emphasized that usually they were not initiators but only one of the participants of these actions. Protests were mainly organized by the opposition political party (FIDESZ), (Tóth 2013, pp. 11–12). Secondly, trade unions experienced strong decline in density (from 50% in 1990 to 12% in 2013 [OECD 2012, p. 136; Fulton 2013]), which brought about loss of their credibility among employers, governments and many citizens, decline of income and reduction of mobilization capacity. Thirdly, trade unions' weakness stem from the fact that they have been strongly conflicted with each other and incapable of cooperation (with some irrelevant exceptions [Girndt 2001, p. 9]). They clashed over such issues as a just division of the communist trade unions' assets and distribution of seats in the Self-Governments of Pension and Health Insurance (Héthy 2001, p. 46). In nineties noncommunist organizations did not even want to accept the existence of trade unions, which originated from the previous political system (Héthy 2001, p. 46). Joint operations against the government's policy have been also impeded due to strong political affiliation of some trade unions (Careja 2007, p. 92). Basing on the trade unions' condition analyzed above, there should be no doubt why these organizations have focused primarily on the protecting institutional security within political system and in the companies. In order to achieve these aims they have been ready to legitimize government's policy which is unfavorable to workforce.

There have been 3 conservative (1990–1994, 1998–2002, 2010-) and 2 centre-left (1994–1998, 2002–2009) government coalitions as well as one single-party (social democratic) cabinet (2009–2010) in Hungary since 1990. Only one government (1998–2002) rejected any corporatist endeavors and officially announced that it prefers different model of state management (Ladó 2000, p. 69). Others used the process of tripartite negotiations to

share responsibility for their austerity programs and liberal reforms with representative trade unions and employers' organizations. Obtaining support especially from trade unions, which theoretically should defend workers' political interests, increased credibility of authority's economic policy among the society and was worth providing them with some minor concessions. It must be mentioned however, that sometimes governments took decisions that were not consistent with illusory version of corporatism such as adoption of laws that cause a significant increase in social expenditure (Esther, Tóth 2005). They were only short-term moves enabling government to realize their political interest (in case mentioned above it was winning elections) and did not mean a rejection of the illusory corporatism.

### **Corporatist institutions in Hungary**

Since 1990 there have functioned many tripartite commissions and other consultative bodies including more associations than only trade unions and employers' organizations (for instance the Economic Council also consisted of foreign and national economic chambers, representatives of the financial and investor sector as well as of the productive sector's major investors [Ladó 2000, p. 71]), which have had the power to discuss labor issues and (or) economic policy of the government. The most relevant ones were: the Interest Reconciliation Council, the Interest Reconciliation Council of Budgetary Institutions, the Economic Council, the National Labor Council, the National Interest Reconciliation Council, the National Public Service Interest Reconciliation Council and the National Economic and Social Council. It should be underlined that the law did not often regulate, which institution is superior to the others. Moreover, their competences overlapped each other. For instance, few times between the Interest Reconciliation Council and the Interest Reconciliation Council of Budgetary Institutions there was a dispute over the order and method of setting minimum wage (Towalski 2011, p. 171). Undoubtedly, the existence of so many corporatist institutions negatively influenced the effectiveness of tripartite negotiations.

The agreements reached during the meetings of these institutions are not binding to any of their parties. Taking into account the fact that trade unions and employers' organizations do not have enough political resources or will to enforce implementation of contracts by the government the efficiency of

commissions mainly depends on the latter party. In Hungary these institutions are treated by governments as tools, which facilitate gaining the support for their policy. Governments rarely enter into agreements with trade unions and employers' organizations during the sessions of commissions, and when they finally decide to do that they often terminate the deal without any consequences.

### **Illusory corporatism in Hungary**

In this article, the term social pacts was understood as *publicly announced formal policy contracts between the government and social partners over income, labour market or welfare policies that identify explicitly policy issues and targets, means to achieve them, and tasks and responsibilities of the signatories. This excludes [...] so-called symbolic or declaratory pacts that do not commit the negotiating parties to specific tasks and responsibilities* (Visser 2013, p. 14). Social pacts are hardly ever concluded in illusory corporatism. Moreover, the government, trade unions and employers' organizations rarely make an attempt to begin work on such an agreement in this system because majority of political decisions are unilaterally taken by the government. Below there are presented results of the research concerning frequency of negotiations and settlement of social pacts in Hungary.

*PactNeg [PN]: A social pact is (publicly) being proposed by the government, the unions or the employers, and negotiations do take place in specified year*

0 = no

1 = yes

*PactSign [PS]: A (tripartite) social pact between the government, the unions and the employers, or between the government and the unions, is reached and signed in specified year*

0 = no

1 = yes

2 = two pacts in same year

3 = three pacts in same year

*etcetera* (Visser 2013, pp. 13–14).

Table 1 Social pacts negotiated and concluded in Hungary between 1990–2011

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>PN</b>	0	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0
<b>PS</b>	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0

Source: own processing based on: Visser 2013.

Within analyzed period of time there were only two attempts to conclude a social pact (in 1994 and in 2002) in Hungary, solely the latter succeeded. It is worth mentioning that in 1994 social democratic party, which was the dominant one in the new coalition government, proclaimed the need to conclude a social pact in order to immediately redistribute the social expenses to ensure that the burden of these costs was not imposed on the most vulnerable social groups (Ladó 1995, p. 194). The negotiation over the social pact failed very quickly. As a replacement of it, the government adopted a radical austerity program without any consultation (Bohle, Greskovits 2012, p. 149). Although trade unions were deceived by the government, they did nothing relevant to block this reform or express disappointment. Not only did they not organize mass strikes against government’s policy, but also remained in the corporatist institutions despite the fact that their work within them was not used at all. Furthermore, trade unions as well as employers’ organizations supported the government when some social groups began opposing government’s political decisions. The Interest Reconciliation Council, to which these organizations belong, *helped maintain social peace in 1995–96, when real wages dropped by 18%*. (Fóti 2003, p. 140). This is a perfect example of illusory version of corporatism. In return for maintaining symbolic privileges (presence in the corporatist institutions) trade unions legitimized unilateral government’s policy, which was unfavorable for workers. Employers’ organizations supported its policy, because it was consistent with their political interests. The only concluded social pact between 1990–2011 concerned mainly one-time interference in the process of wage bargaining by the state (Visser 2013) and did not influence the system of formulating policy in Hungary in further years.

There have been at least four patterns of behavior of the parties involved in the tripartite relations that confirm domination of the illusory corporatism in Hungary. Firstly, the government has very often broken agreements (symbolic pacts) settled during the sessions of the corporatist institutions,

which have not met with the strong opposition from trade unions. A great example of such a situation took place in 1992. The contract encompassed tax, income, employment, wage and social policy. The government obliged to introduce some favorable changes to the workers in these policies in return for obtaining a guarantee of social peace. It withdrew from the deal and adopted new austerity regulations (Héthy 1995, p. 218). It must be emphasized that trade unions accepted, with *a murmur of discontent* (Héthy 1995, p. 223), government's behavior and the fact that many elements of the contract would not be implemented. They did not organize a general strike, although they earlier threatened the government that they would have done it, if the government had taken political action harmful for the workers (Héthy 1995, p. 223). It is worth underlining that trade unions did not organize mass protests against government, even when it did not follow cost-free provisions of the agreement. It promised that it would present and discuss strategies of industry and agriculture development as well as public finance reform at the sessions of the Interest Reconciliation Council. All these commitments were not fulfilled (Héthy 1995, p. 217). Corporatist institutions turned out to be bodies, in which no significant workers' problems could be resolved. Trade unions' presence in these commissions enabled channeling social discontent of the government's political decisions. They did not get anything for their support apart from the right to sit in the tripartite commissions. Employers' organizations were satisfied with government's new policy and thus backed it.

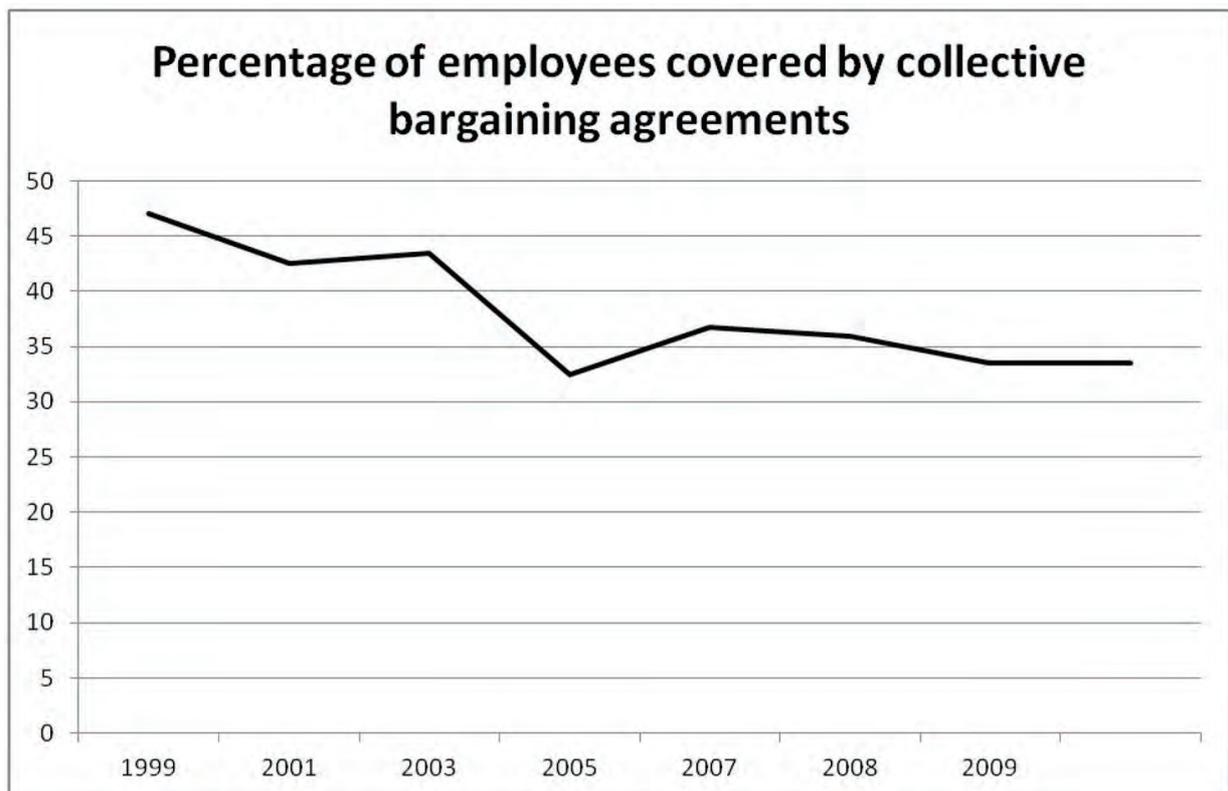
Secondly, trade unions, government and employers' organizations concluded some contracts (symbolic pacts) that from the beginning were inconvenient for workers. Their implementation required resignation from the specific financial benefits from trade unions and the agreement to begin discussion about renunciations of privileges that employers and government possess. For instance, in 2002 trade unions agreed to make some concessions on salary increases. In exchange for that, other parties of the tripartite negotiations consented to start a debate within the National Interest Reconciliation Council about reduction of regular working time. It must be emphasized that all parties complied with their obligations under the contract. Trade unions accepted the fact that workers did not get additional financial support. The discussion concerning lowering weekly working time has been carried out, but it ended without a compromise. In this area status

quo has been maintained (Tóth, Neumann 2003). There is no doubt that trade unions were the only one, who lost on this contract. Again neither did they organize mass protest against government and employers' behavior, nor stopped participating in the meetings of corporatist institutions, which activities clearly did not have a positive impact on workers.

Thirdly, since the election in 2010, in which coalition of conservative political parties won over two-thirds of parliamentary seats, trade unions have been tolerating or even accepting new government's policy, which favors employers with regard to employees and threatens the existence of trade unions in long-term perspective. For instance, the government introduced new strike law, which hampers the organization of strike in the private sector and in majority of cases precludes launching strike in the public sector (Rindt 2012). Moreover, it adopted a new labor code, which limits trade unions' rights in firms (i.a. it lowers the number of union officials entitled to legal protection in the companies and reduces *the statutory working time exemption for performing union duties* [Krén, Rindt 2013]) and drastically strengthens the position of employers with regard to their employees in such issues as collective agreements (*to achieve further flexibility, it [...] now allows agreements to deviate in favour of the employer and not only in favour of the employee* [Krén, Rindt 2013]), *termination of employment and working time and allocation of leave days* (Krén, Rindt 2013). Some trade unions were consulted about these extremely liberal reforms, but their proposals were not taken into account by the government. Despite such a behavior, the government did not meet with strong opposition from trade unions. Apart from organizing a few scarcely attended demonstrations, their leaders expressed discontent with these reforms at the press conference and in some articles (Rindt 2012). It is worth mentioning that two anticommunist trade unions, which have been strongly cooperating with ruling political parties for many years, did not protest because they were given some symbolic privileges (the government carries out bilateral negotiations with them). One of them received also a material support from the authorities (a major government grant) (Tóth 2013, p. 15). It is crystal clear that trade union movement is in the crisis in Hungary. At the moment organizations are willing to accept every government's move in order to gain some small concessions and survive. Employers' organizations are completely pleased with government's policy (Krén, Rindt 2013).

Fourthly, with some exceptions (for instance the case of Budapest Transport Company [Tóth 2007]) trade unions have been not able to stop a systematic loss of their position in majority of companies in Hungary. Below, the way, in which the mechanism of collective bargaining functioned between 1999–2009 was analyzed (it is perceived as the most significant tool protecting employees from the employer). This period of time was chosen purposely. In 1999 trade unions *lost monopoly over negotiations and the signing of collective agreements* (Girndt 2001, p. 15) in favor of work councils. They regained this right in 2002 (Tóth, Neumann 2002) and retained it until conservative coalition of political parties came to power in the state and reversed the law. In the graph 1 there are presented data encompassing the abovementioned political occurrences.

Graph 1. Percentage of employees covered by collective bargaining agreements between 1999–2009



Source: own processing based on: Visser 2013.

Between 1999 and 2009 the number of employees covered by collective bargaining agreements decreased by 15 percentage points. It must be em-

phasized that the retrieval of the monopoly of negotiation collective bargaining agreements by the trade unions in 2002 did not improve the situation of workers. Trade unions only enhanced their position with regard to work councils, with whom they should have similar aims (defending workers' interests). Moreover, apart from 2002 (the social pact), collective bargaining agreements were mainly negotiated in an uncoordinated way (controlled by market) at the company level (Visser 2013). It puts them in a difficult position due to the fact that they cannot get help from the state or trade unions not functioning in the company. Unquestionably, trade unions became marginalized in most of companies by the employers. Taking into account the content of new labor code and the advancing weakness of trade unions it can be stated that this phenomenon will not be reversed.

## Summary

The herein formulated hypothesis has been confirmed. Illusory corporatism appeared and has prevailed in Hungary since 1990. There are four types of behavior that repeatedly appear in Hungary, which confirms domination of illusory corporatism: breaking tripartite agreements favoring workers by the government without any significant consequences, signing and fulfillment of the contracts demanding sacrifices only from trade unions, accepting and supporting extremely liberal and anti-union policy of the government by the trade unions as well as employers' organizations, considerable loss of the position by trade unions with regard to employers (i.a. significant decrease of number of employees covered by collective bargaining agreements). It should be underlined that apart from one exception, there have not been concluded a social pact since 1990. These agreements actually include employers' organizations and trade unions into the system of formulating economic policy of the state.

Development of the illusory corporatism in Hungary stems from the feebleness of trade unions and employers' organizations and from the specific behavior of the governments in relation to these organizations. Hungarian trade unions have three significant weaknesses: they have low capacity for mobilization, extremely low level of density and are strongly conflicted with each other. Employers' organizations also have had a significant flaw (for many years they were composed of managers of state companies and were

influenced by the government). The majority of governments pursued to obtain these organizations' support for decisions, which they made unilaterally. Corporatist institutions mainly serve them as means of achieving this support, not as places, where socio-economic problems can be solved.

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