Assessing the Impact of Veto-Players and Political Skills on the Outcomes of Economic Reforms in Central European Countries

by

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Abstract

The initial choice of a certain sequence of constitution building, price liberalisation, privatisation, and stabilisation policy had a significant impact on economic recovery. In particular, those strategies proved successful that gave priority to stabilisation. However, among the Central European countries, there are two deviant cases: Bulgaria and Estonia. Although Bulgaria employed a similar 'winning' sequence, economic recovery is a long time in coming. Estonia, contrarily, is among the best performing countries albeit the stabilisation programme was implemented with delay. When explaining these 'deviant' cases one learns about two more significant factors: the presence (or absence) of veto players, on the one hand, and, on the other hand, the government's capability for coping with problems of political management arising along the reform path. Applying this perspective to the 'conforming' cases as well reveals how far transformational success depended, besides all the structural factors, on considerable political skills.

Introduction

Early fiscal stabilisation has proven to be of highest importance for economic recovery (Hellmann 1996, Beyer 2001). Yet if we compare those countries that started stabilisation before liberalisation or privatisation, different developments are visible after several years, despite the same sequence of reforms. Czechoslovakia, Poland and Slovenia could ban inflation effectively, while in Hungary and the Slovak Republic success came slower and Bulgaria even had to face a drastic rise again. Contrary to this, a late reformer like Estonia, which chose to liberalise the economy first, was also very successful concerning the suppression of inflation and the increase of GDP. How can these findings be explained? It is argued here, that besides economic reasons, we have to consider political circumstances that hinder or enable a government to follow the path of stabilisation consequently. The aim of the paper is to test empirically the political conditions for sustainability and persistence of initial reform steps. By analysing deviant cases it is possible to show how different dilemmas of transition can be overcome by successful political management or which faults should be avoided respectively.

Fiscal stabilisation is essential for gaining adequate levels of saving and investment since inflation undermines the functioning of the price system and destroys confidence in the currency. The suppressed inflation, a legacy of the socialist period, had to be eliminated, and its re-occurrence after liberalisation of prices avoided. Although the necessity of restrictive fiscal policy and a balanced state budget is often accepted by most actors, such a programme causes enormous social costs and usually leads to more unemployment and losses in real wages. Therefore the government has a difficult task to face, and may be trapped in a dilemma of policy choice: pursuing the stabilisation programme may increase social tensions and lead to the downfall of the government, while softening the programme may cause even more economic disturbances in the long run (Bruszt 1992, Bönker 1999). Stabilisation is not only a task to be started at the beginning of the transition process but also has to be continued for a certain period of time.

Yet, to defend a once chosen policy direction or to adopt it adequately according to a changing environment respectively is not only difficult from an economic perspective (Bönker 1993: 17f), it is also aggravated by a further institutionalising society that may mobilise social protest. The consequence is that governments become more restricted by pressure from interest groups. Additionally, parties and state presidents or other institutions may act as veto-players. Therefore, only those countries whose governments are able to defend the reform policy against veto-players by mediating interests effectively will develop successfully (Haggard/Kaufman 1995).

The paper is organised in the following way: First we will shortly outline the policy measures taken in stabilisation policy in a comparative analysis of the countries studied here. In the second part of the paper several case studies will follow that shall shed some light on how successful or not the respective governments dealt with protest against reform measures from within the political institutions or from the society. A possible mechanism may be the introduction of tripartite structures since they may help to attain social peace and to gain the approval of trade unions to restrictive wage policy (Schmitter 1992).

The time period of the analysis includes the beginning of reforms until the middle of the 1990s when a certain stabilisation had been achieved in most of the cases and also some adjustments had become necessary, but before the official opening of the negotiations with the EU, in order to control this important external condition. Besides other material, the analysis is based on extensive interviews with trade unions, employers' organisations, scientists, and state officials in Bulgaria, Estonia, Slovakia, and Slovenia in May 2001.

2. Initial Conditions and Instruments of Stabilisation Policy

At the beginning of transition the countries in Central and Eastern Europe faced a different economic situation.[1] Not only did the extent of fiscal imbalances, meaning internal and external debts and inflation rate differ, also the extent to which the socialist governments had already started with economic reforms, meaning the size of the already established private sector, and the amount of trade with the USSR varied (Bönker 1993: 22). Hungary emerged better prepared than all the other countries since it had started economic reforms in 1968 that had already led to a certain price and trade liberalisation and developments in the small-scale private sector. In Poland, there was some activity in the private sector as well, but both countries suffered from huge foreign debts and showed practically no growth in the 1980s. Poland additionally faced a large internal deficit and monetary overhang. In Bulgaria the situation concerning external debts and monetary overhang was similar, hidden inflation was about 10% in the late 1980s. Bulgaria had the most extensive industrial development during socialism but exports were mainly confined to the USSR (Bruno 1994: 23f). Czechoslovakia had returned to orthodox socialist economy in 1968 and was much less prepared for a change in a structural sense. However, it had only a small monetary overhang, a budget and balance

1 Concerning the development of inflation, budget deficit, foreign debt, unemployment and GDP see tables 1-5 in the annex.

of payment in balance and an extremely low ratio of external debt to GNP since the government had pursued a tight fiscal policy (Bönker 1993: 23). Concerning the state budget and external indebtedness, Slovenia and Estonia had similarly favourable initial conditions. But inflation in Slovenia was about 104,5% in 1989 (Andrejevich 1991: 32), and Estonia also faced hyperinflation in 1991/92.

Stabilisation policy means the government has to fight the budget deficit by restructuring the system of revenues and expenditures by using a mixture of fiscal policy instruments, cutting subsidies and reforming the tax system. In order to bring down inflation wage ceilings or an exchange-rate policy that serves as an anchor to the economy can be used, and an independent central bank that is able to perform a credible monetary policy with tight interest rates and credit ceilings independently from the government has to be introduced (Bönker 1993: 19). Despite their different initial conditions, Poland, Czechoslovakia, Bulgaria (and Estonia) decided to use a shock-therapy approach for their economic and fiscal reforms.

The Polish Balcerowicz-programme, named after the minister of finance in the first democratic government under Tadeusz Mazowiecki, became known as a synonym for macroeconomic stabilisation. It was implemented on 1 January 1990 and had four main components: fiscal consolidation, control of inflation through the control of growth of domestic credit and tight income policy in order to limit the wage growth and convertibility of the zloty (Berg/Blanchard 1994: 52). The Czechoslovakian government introduced a similar economic reform programme on 1 September 1990.[2] Subsidies to enterprises were also reduced and monopolies of state owned enterprises were abolished in order create a competitive economic environment (Martin 1990: 1-4, Martin 1992: 29-30, Morvay 2000: 37-41, Dyba/Svejnar 1994: 99). In Bulgaria an IMF-approved shock therapy was introduced by prime minister Dimitar Popov on 1 February 1991 after piecemeal domestic reform attempts under the three post-socialist transition governments could not improve the deteriorating situation.[3] The programme additionally comprised price liberalisation and the deregulation of most current account transactions (Wyzan 1997: 85f).

Concerning the reconstruction of the budget most countries cut expenditures[4] initially but rising costs for social welfare laid heavy burdens on the state budgets. In Poland, the

2 In January 1991 the government liberalised most prices. Price regulations remained for prices that covered about 15%, later on 5%, of GDP. The main objective of this regulation was to prevent the shocks of inflation.

3 Bulgaria faced three external shocks in 1990: first, the decreasing trade within CMEA contributed to a sharp decline of export in Bulgaria and the lower import of raw materials reduced production; second, Bulgaria faced a massive debt servicing problem due to the commercial banks' difficulties in lending policy; third, the oil price shock due to the Iraq crisis disrupted trade with the middle East (OECD Bulgaria 1992: 48).

4 In Poland state subsidies accounted for 40% of state spending during the 1980s, food products tended to take the major part of subsidies on consumer goods and services, in 1990 they were cut to 25.9%, in 1991 to 9%.

possibility of early retirement should have reduced the number of unemployed but instead reduced the revenue base for social insurance. It was the main cause for budget deficits in 1991-94, which were highest in 1992. The state then curtailed its role in financing economic undertakings or investment and made serious cuts in health care and education and in subsidies to enterprises. The budget became a purely administrative one, only financing the traditional spheres of public expenditure (Owsiak 1995: 54f). In Bulgaria pensions alone accounted for 70% of social expenditures and they made up a quarter of total budget expenditures. As not all expenditures were part of the budget, official figures even understated the remaining weight of the government in the economy (OECD Bulgaria 1992: 14-19).[5] Only the Czechoslovakian budget was even in a surplus in 1993-1995, one main reason being the low unemployment which made huge state subsidies unnecessary. The federal budget was split among the two republics until the end of 1992: Slovakia (33.8% of the population) received 26.3% of the total state revenues, while the Czech Republic (66.2% of the population) received 43.6%, while the remaining 30.1% went to the federal administration. In 1991 Slovakia stopped receiving additional subsidies from the federal budget and its budget deficit had risen correspondingly (EIU 1994/95: 51). After the separation in January 1993 any budgetary transfer was abandoned and difficulties arose concerning the separation of federal property.

After these initial attempts of restructuring the budget, the governments had to keep the budgets on track, which was not easy in every case. Poland was quite successful in this respect, though it was hard to maintain the deficit at 5% of the GNP as it was demanded by the IMF because of lower than expected revenues. Only in 1991 did prime minister Jan Olszewski try to establish a more socially oriented economic policy after his election, but due to the fragmented coalition-government he was not able to put through a new economic blueprint (Vinton 1992a: 20). Even the electoral victory of the former communists in September 1993 caused no real change in stabilisation policy. The Czech Republic was equally successful, problems only arose in 1997, which were mainly caused by financing non-viable enterprises via still publicly owned banks through the government of Václav Klaus (Fisera/Rusnok 1995: 52, Bryson/Cornia 2000: 510).

The government of the Slovak Republic also decided to continue the reform path, but had some difficulties in doing so. In 1993, the budget deficit increased due to uncollected taxes, since resistance to the VAT had been strong, and overspending was at 6.8% of GDP.[6] So the

5 Bulgaria has one of the world’s oldest population, as well as one of the youngest retirement ages, 55 for women and 60 for men.
6 Other sources even indicated 13.4% of GDP.

new government of Jozef Moravcik, appointed by parliament in March 1994, implemented a package of stabilising measures like cutting defence expenditures, subsidies on agriculture, on public transport and domestic heating (EIU 3/94: 33). Moravcik achieved a reduction of the deficit from 6.8% of GDP in 1993 to 4-5% in 1994. The budget in 1995, being already adopted under the newly elected government of Vladimir Meciar, was even tighter: health and education expenditures were cut further and the budget of the president’s office was halved. But as Meciar delayed privatisation, revenues were reduced in comparison to the Moravcik budget (EIU 1995/1: 38). After 1996 budgetary problems and external indebtedness arose again when Meciar increased expenditures for social security and infrastructure programmes, the latter being financed by foreign loans. The deficit counted 4.4% of the GDP. Expenditures increased by 12% since revenues grew only by 2% (Bryson/Cornia 2000: 509). Bulgaria had the most difficulties in maintaining the aim of reducing the budget deficit. Real development differed from what was expected by programme targets. The higher-than-expected price shock in 1991 led to rising wages and parliamentary opposition against the austerity budget resulted in the softening of reforms (Bönker 1993: 30, EIU 1994/2: 42).

Tax reform was the main instrument to restructure the revenue side. Reducing profit taxes for enterprises first decreased revenues. Newly introduced personal income taxes and other indirect taxes could not balance this effect immediately. Personal income tax in Poland was introduced on 1 January 1992, and indirect taxes generally became the most important source of revenue. In Czechoslovakia, the procedure of tax reform, which took place in 1991, was divided into three stages and contained five major changes: first the standardisation and decrease of tax rates on enterprise profits from 65 to 55% of the fixed base, second the abolition of negative turnover tax, third the introduction of income tax, fourth sanctions for enterprises which abused their market position and fifth amendments of regulations on financing, accountancy and the evaluation of real estates (Lichnovská 1995).

A significant increase of inflation occurred in all countries when the value added tax (VAT) was imposed. In the Czech Republic and Slovakia it was introduced in January 1993 and in Slovakia, the government increased VAT from 23% to 25% for most goods and from 5% to 6% for services already half a year after its introduction (EIU 1993/4: 36, Fisher 1994: 32, Morvay 2000: 24). In Poland, VAT was implemented on 5 July 1993 at three rates: first a standard rate of 22%, second a preferential rate of 7% with zero-rating on certain items and third excise duties on 19 categories of products like luxury items. Bulgaria was one of the last countries to introduce VAT; it took place only in April 1994 under the influence of the IMF. First there was a flat rate of 18% on all goods, replacing the 10% turnover tax. The result was harsh criticism in the media and widespread public confusion. Newspapers went on strike for four days and consumers rushed to buy durable goods to beat the deadline, contributing to the run of the lev.[7]

Concerning income policy, Poland was most restrictive in maintaining wage ceilings. The so-called popiwek tax[8] as a punitive tax on firms that increased wages above the threshold warranted by productivity and inflation was introduced at the end of 1990.[9] At the beginning of the privatisation process the tax was also used as an incentive for state enterprises to privatise because afterwards they would be exempt from the tax. In total the effects of this tax were sometimes exaggerated, still it contributed about 12.8% of revenue in 1991 (Vinton 1991: 24). The post-socialists promised to abolish the popiwek-tax after the electoral victory in September 1993, but once in office they introduced a modified version instead together with alternative models of wage control. The Czech government established first regulations on wage limitations in January 1991 (Fisher 1994: 34). In 1992, the government introduced a short-term excess wages tax system with agreement of the tripartite forum. After strong pressure from both, employers and trade unions, wage ceilings had been relaxed on 1 January 1993. Because of the fear of inflation, partial wage control was again implemented on 1 July the same year.[10] Enterprises with more than 25 employees were penalised when paying wages that lay 5% above the inflation rate (Cox/Mason 2000: 341, Fisera/Rusnok 1995: 52). In Bulgaria incomes policy was used as one of the two nominal anchors of the stabilisation programme but wage ceilings were less strictly controlled (Wyzan 1997: 87). In the Slovak Republic wage limitation was introduced by the Meciar government in 1997. This time the level of productivity was lower than that of real wages.[11]

In exchange rate policy, Poland and Czechoslovakia and the two successor republics used the devaluation of their currency and set the exchange rate as a crawling-peg against a basket of currencies as a further means to lower inflation. The respective central banks acted as a strong proponent of anti-inflationary monetary policy. The Polish zloty was made internally convertible at the beginning of the stabilisation programme on 1 January 1990 and was devaluated by 31.6%. In January 1995 a new zloty was introduced, worth 10.000 old zloty, an arithmetic transformation that gave a welcome psychological boost in the economy (EIU

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7 Interview with Ruslan Stefanov, Economic Policy Institute, in Sofia on 30 May 2001. In public VAT was called “killer tax”.

8 The formal title in Polish is: “podatek od ponadnormatywnych wyplat wynagrodzen” (Vinton 1991: 24).

9 The limit is defined as a percentage of the monthly increase in retail prices, in January and February 1991 it was about 60% of the rise in prices. Firms that exceeded this limit by more than 5% must pay a 500% tax on the sum of excess wages, by 3-5% a 200% tax and by up to 3% a 100% tax.

10 Wages had risen by 36% from June 1992 to July 1993.

11 Interview with Pavol Karasz, Slovak Academy of Sciences, in Bratislava, 11 May 2001

1995/1: 6). The Czechoslovakian currency was devaluated in October 1990.[12] The currency basket for the Czech koruna was simplified to USD and DM in 1994 and the exchange rate has remained unchanged since then. The stable valuation of the currency is one reason for the successful economic transformation and the international competitiveness of the country, although Klaus has been reluctant to make the Czech koruna fully convertible.[13] In Slovakia, the exchange rate of the Slovak koruna had been fixed until October 1998. Since January 1999 the Slovak central bank has used the euro as a reference currency for internal purposes. Here, devaluation of the currency had no influence on the development of inflation (Beblavý 2000: 97, EIU 1993/3: 33, Fisher 1994: 32-33). Only Bulgaria kept a flexible exchange rate because of a lack of foreign currency. The depreciation was larger than that achieved in any other Central and Eastern European country. The lev remained weak, which helped the exports but kept a high burden on the budget because servicing the foreign debts remained expensive (Bönker 1993: 24). Another problem in monetary policy was the banking system. An independent central bank and a two-tier banking system had been established in June 1991, but it mostly distributed old, partly bad loans and deposits to new banks. Some measures have been taken to reduce the number of weak banks and to strengthen the supervisory functions of the central bank, but progress has been slow.[14]

In sum, inflation and budget deficit were reduced in Poland and the Czech and Slovak Republics. But fiscal policy generally caused problems in the sense that it neglected to improve conditions for future revenues (Owsiak 1995: 59). In Bulgaria, inflation was not banned equally successful due to the mentioned shortcomings of the government in implementing the budget reform and accepting an independent central bank.[15] The situation worsened rapidly in 1996 and 1997, with inflation, government debt and the budget deficit spiralling out of control. With the assistance of the IMF the new government under Ivan Kostov, elected in 1997, introduced a currency board arrangement together with a new stabilisation programme on 1 July 1997. The currency was fixed to the DM by 1000 lev and active monetary policy replaced. This time fiscal policy remained prudent and the measures proved to be successful during the following years (OECD Bulgaria 1999: 23-54, Stefanov 1999).

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12 The currency basket in Czechoslovakia also consisted of five currencies: USD, DM, ATS, CHF and FRF.

13 In 1994 the government rejected a proposal of the central bank to make the currency convertible by 1995, because internal convertibility was still limited in 1994 and conditions and time frame were not acceptable.

14 Interview with Russlan Stefanov, EPI, on 31 May 2001 and a member of the Bulgarian National Bank in Sofia on 1 June 2001.

15 At the end of the year, the central bank often financed the budget deficit. This was mentioned in several interviews with Scientists at the National Bank.

In Estonia the law on stabilisation was formally introduced after liberalisation, in company with the new currency in June 1992. Economic reforms in Estonia can be distinguished into three stages: In stage I, lasting from 1987-89, negotiations with Moscow were held about the economic autonomy of the country. In stage II, from 1990 to the first half of 1992, mechanisms of the market economy like wage and price liberalisation were introduced, combined with a drastic cutting of subsidies, banking and tax reform. Small and large privatisation and trade liberalisation was started while protecting the domestic market with administrative measures, a new banking system was implemented and the monetary reform prepared. The budget of 1990 already contained some of the innovations, but the Estonian economy still belonged to the Soviet budget until the formal independence in August 1991. Only then were reforms in the budgetary process itself carried out (Tang/Nilgo 1995: 93f). Step III, starting in the second half of 1992, was marked by the introduction of the new currency and a strict fiscal and monetary policy, large-scale privatisation and the reform of labour market policies and the social security system (Taaler 1995: 2). This means, that although a stabilisation programme as such was introduced in June 1992, some of the related reforms have already been undertaken earlier.

The Estonian kroon was introduced in a single step on 20 June 1992. The IMF had first been sceptical, arguing that trade with the CIS countries would be disrupted. The Estonian currency was pegged at one-eighth to the German mark and the value of the kroon was backed by 100% of the German mark assets of the Bank of Estonia. The bank was only allowed to issue further kroons when they could be covered by the bank's hard-currency reserves. This measure meant not really introducing a currency board system, since only one feature of a currency board system was fulfilled, namely to hold a 100% foreign reserves against the monetary base, but the kroon was not yet fully convertible (Girnius 1993: 35). Monetary policy was not possible anymore then, but market forces pushed the deposit structure in the right direction, so there was no need to intervene anyway (Rajasalu 1995: 44).

This move to a new currency was accompanied by tight fiscal policy. Budgetary expenditures were reduced, VAT increased from 8% to 18%, corporate income tax was increased from 25% to 35% and personal taxation was increased to an upper limit of 50%. The new constitution, also passed on 20 June 1992, provided that the state budget has to be balanced, which remained difficult because of the rising number of unemployed people, but was managed (Tang/Nilgo 1995: 98f). In response to these measures, the monthly rate of inflation fell immediately: it decreased from 449% in the first half of 1992 to 92% in the second half and 15% in the first half of 1993 (Girnius 1993: 36f).

Further tax liberalisation, including the abolishment of the progressive taxation of individual income was introduced in September 1992 after Mart Laar became prime minister (Taaler 1995: 15). VAT was adopted in August 1993. Corporate taxes for enterprises were abolished in 2000, but the effects for the labour market are too small.[16] Restrictions on income growth were used until the end of 1993, and they also constrained wages of civil servants, almost froze pensions and kept public sector investments to a minimum. As a result, the state budget and the budgets of local administrations were kept in surplus.[17] There are extra-budgetary funds for social security and health insurance but their resources are rather limited (Rajasalu 1995: 44f). As real wages decreased further, the electorate rejected the shock therapy and the centre-right coalition in the elections of April 1995. But even this government, under the leadership of Tiit Vähi, which was supported mostly by the losers of transition, pensioners and farmers, did not change the general elements of stabilisation and economic policy (Hoag/Kasoff 1999: 928).

In contrast to this first group of countries, Hungary and Slovenia followed a more gradual stabilisation policy but in different steps, as Slovenia's main task was to introduce the new currency. In Hungary, the first stabilisation efforts were undertaken by the last socialist government, which planned to pass the 1990 budget already according to the IMF's advice. Foreign debts were very high and some measures were taken in order to reduce them and to restructure the budget by cutting housing subsidies, raising food prices by an average of 20%, and transportation costs by 45% (Okolicsanyi 1990: 21). The first democratic government that came into office in March 1990 under Jozef Antall generally neglected the budget reform. Since there was no hyperinflation and the budget was rather balanced there was no real need for a strong austerity programme.[18] Some further cuts in subsidies and a new unemployment insurance system (1% from employers and employees respectively) were introduced, but besides the economic programme contained rather a collection of objectives and principles and the promise of a gradual reform path than a specific course of action.

Inflation never was extremely high, peaking at 35% in 1991, but it could not be reduced to single-digit levels either. The budgetary balance worsened rather quickly as revenues dropped following the fall in output, the introduction of a new bankruptcy law, rising inter-enterprise debts, increased bank reserves and rising unemployment. The inherited huge foreign debt ag-

16 Interview with member of EAKL trade union, in Talinn on 24 May 2001and several other interviews.

17 It is difficult to compare the structure and amount of revenues and expenditures as the modes of accounting and the division of functions between the state and the local governments have changed during time.

18 Hungarian experiences with inflation during the eighties can be divided into two periods, one of moderate inflation (1980-88) and one of accelerating inflation (1988-90) the latter being due to a series of one-shot price adjustments that coincide with price liberalisation but are not accompanied by any mechanism for transmitting the inflationary spikes into hyperinflation (Ábel/Bonin 1992: 9f).

gravated the economic situation since Hungary has to use part of its national income for debt financing (Horváth 1995: 37). Also, social spending had not been reduced but instead even increased (Habuda 1995: 321).[19] Therefore, finance minister Mihály Kupa[20] who came into office in January 1991, and his successor in 1993, Ivan Szabo, tried to impose stability packages, but later even they did not follow the targets consequently and were too optimistic in assessing the future of the economy. Apart from mistakes in planning, calculation and forecasting, the government took decisions that burdened the following years' budget, namely land compensation, credit consolidation and the plans for the World Exposition (Okolicsanyi 1994). The tax reform did not lead to increasing state revenues. Personal income tax and turnover tax had been introduced in 1988, and an enterprise profit tax as a kind of corporate income tax was introduced in 1989 that came into effect only in 1992. Since then only marginal changes have been undertaken in the tax system.

In some periods stabilisation policy was even relaxed further in order to promote growth rather than to keep inflation down, which included a decrease of corporate taxes. But exactly this policy was criticised by the National Bank which increased a variety of interest rates in the third quarter of 1993. Following this, a „battle of words" between the minister of finance and the president of the central bank emerged about keeping tight monetary policy (EIU 4/93: 11f). The relaxation proved to be ineffective; instead it led to a worsened budget deficit. The exchange rate policy has been primarily driven by debt servicing concerns. The central bank followed a crawling-peg policy of periodically devaluating the forint in order to offset inflation differentials.[21] Several devaluations in 1993 should have helped the then weak Hungarian export.

To keep inflationary pressure low, certain wage controls in state enterprises were imposed (increase was restricted to 2.5%).[22] But since many enterprises could not afford to pay higher wages anyhow, the government abolished this mechanism in November 1992 trough the Council of the Social Partners (Horváth 1995: 35). "In a nutshell, a combination of policy mistakes and the debilitating effect of a large external debt have prevented Hungary from reaping the benefits of its otherwise favourable position" (Halpern/Wyplosz 1998: 12).

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19 Social security funds which cover health and pensions (pensions started with 55 for women and 60 for men) have been a separate post in the state finances, their inclusion in full in the state budget would result in a much larger deficit (EIU 1994/1: 12).

20 Kupa came into office after his predecessor Ferenc Rabar resigned after the taxi and truck driver strike in late October 1990.

21 The forint was linked to a basket evenly divided between the US dollar and the ecu, and after August 1, 1993 to the DM and then again to the ecu, by a 30:70 ratio.

22 If the amount was exceeded, ten times the excess had to be paid as punitive tax from the net result.

For these reasons the socialist-liberal coalition planned a stricter financial stabilisation after their electoral victory in May 1994. In September 1994 IMF and World Bank also expressed their concern about the country's economic situation and demanded that Hungary should slim down its generous social welfare provisions (EIU 4/94: 16). Hungary's first stabilisation package was implemented in March 1995 under finance minister Lajos Bokros. On 1 January 1995 several changes concerning the tax rates have already become valid, resulting in higher taxes for individuals and lower taxes for enterprises (EIU 1994/4: 17).

The so-called Bokros-package rested on three classical series of measures: first, primary spending was cut more than 15% in real terms in order to re-establish the budget; second, the currency was devalued by 9% and its regime was changed from a fixed rate to a crawling peg and third, the government committed itself to containing nominal wage increases (Halpern/Wyplosz 1998: 5). Then the finance ministry was given extra power to secure the implementation of its policy against the possible interests of other ministries. Bokros managed to pass his stabilisation programme without major concessions to trade unions and other pressure groups but faced a lot of protest afterwards. These reforms began to bear fruit in 1997 and 1998 when inflation and unemployment fell, while fiscal and external imbalances improved (OECD Hungary 1999: 20).

In Slovenia, the main objectives of stabilisation were to avoid the resurgence of hyperinflation that plagued the rest of the former Yugoslavia. Economic policy aimed at achieving economic sovereignty in spring 1991 had been directed towards three goals: monetary stabilisation, wage control and fiscal discipline in order to eliminate budget leakages. As a result, the general government balance has run towards a surplus in small degrees. Wage policy and pricing of the public sector instead, were not on the stabilisation programme at the beginning (Sušjan 1996: 394).

Generally, the stabilisation proceeded in three phases. In the first part, starting at the end of September 1991, nominal money was strongly restricted and therefore inflation was contained to about 11% per month. The excess liquidity of the banking system was completely exhausted. The supply of money was partially adjusted to the actual demand for money in the second phase starting in February 1992, whereas income policy and pricing of the public sector were still not changed in order to support the stabilisation efforts. Moreover, in the second phase, real wages started to grow quickly from their low level at the introduction of stabilisation. At the end of the second phase, monthly inflation dropped to under 2%. In the third phase, starting in 1993, a fixed monetary role was implemented. Pricing of public utilities was adjusted in order to support the stabilisation. In April 1995, income policy still had not yet been put on the stabilisation programme, although rates of growth in real wages alternated enormously. In the end of the third phase, money supply was neutrally adjusted to changes in real demand for money, while income policy, fiscal policy and control of prices in the public sector began to support the price stabilisation (Bole 1997: 237, Pleskovic/Sachs 2001: 20).

The success of these reforms can be mainly regarded as a result of the monetary policy led by the Bank of Slovenia, which carried out monetary conversion and convertibility at the beginning of the monetary reform very quickly. Parliament declared the tolar the sole legal tender in Slovenia in October 1991. Additionally, the central bank pursued the building of reserves of exogenous money and a floating exchange rate as the main principles of its monetary policy. The only delay considered tax reform, where the Slovenian parliament approved a law for the introduction of VAT in November 1998 which came into force in July 1999 (FAZ 1999/09: 11).

3. Political Constraints and Political Management

Regarding the countries studied here, several scenarios are possible concerning the connection between the development of the stabilisation programme and the influence on it from the political and or societal sphere. Reasons for successful or continuous stabilisation policy may be (1) the room for manoeuvring by the government is not fixed by certain measures but also not pressed because a consensus over reforms exists in society, (2) the room for manoeuvring by the government and sustainability of reforms are secured by preventive action against protest, (3) the room for manoeuvring by the government is constrained because massive social protests emerge, but they are silenced by reactive political management. Reasons for less successful or unsteady stabilisation paths may be that (4) protests are arising before impacts are visible and the government cannot stand the pressure and softens reforms, (5) the government pursues a half-hearted implementation and softening of the programme in advance because of the anticipated fear of social conflicts, (6) the incompetence of the government concerning the implementation and persistence of reforms makes inflation fighting failing without counter-pressure.

Bulgaria

In the Bulgarian case two political circumstances were most decisive for the delays in stabilisation policy: the incapability of political elites to pursue a coherent policy in their struggles in coalition governments and towards the parliament and the role of trade unions as organisers of strikes and as pressure groups. Protests emerged in the direct phase of transition but in the following they did not threaten government stability very much. Mechanisms of conflict re-solving, like the tripartite structure, were established and worked when governments needed union support to contain certain political measures.

The struggle within the political elite delayed the adoption of a stabilisation programme as such. It took more than a year to start with stabilisation policy after the socialist government of Todor Shivkov had been brought down by a kind of "palace revolution". The first three transition governments Georgi Atanasov, Andrei Lukanov I and Lukanov II (elected after the first free elections in September 1990) had not been able to take care of inflation, budget deficit and foreign debt, they even increased it. There were three reasons: first, the reform of the political system and the work on a new constitution had been the major aim. The Great National Assembly had even been elected to serve just this purpose. Second, the political and economic situation has been tense because of strikes, so the respective governments did not dare to act (trade unions had been active in bringing down Atanasov and later Lukanov) and third, their respective period in office was too short to use it constructively (Thirkell/Atanasov/Gradev 1994: 103-105).

After the Lukanov government parliament elected a so-called expert-government under the leadership of Dimitar Popov. Though Popov did not belong to any party, he was supported by a broad coalition between the former socialists (BSP) and the opposition movement (SDS). Because of enduring industrial unrest and a severe political and economic crisis the IMF asked Popov to strengthen bargaining mechanisms and social peace in order to achieve the approval for his stabilisation programme. As a consequence, the competencies of the „National Commission for the Coordination of Interests", which was introduced in February 1990 by the pressure of the trade unions, were enlarged.[23] In an Agreement on Social Peace in January 1991, the ratio between the minimum wage and the social minimum was fixed and a revised mechanism for indexation was provided in exchange for the assurance of social peace by the trade unions (Thirkell/Atanasov/Gradev 1994: 106). Trade unions were rather strong during this period. The Confederation of Independent Trade Unions (KNSB) underwent a total reformation after the dissolution of the socialist trade union in December 1989 and mainly pursued the negotiating path in order put their interests through. The other trade union, Podkrepa, was newly founded in 1989 as a radical protest movement that had a more revolutionary character (Martin/Vidinova/Hill 1996: 14-17, Abadjiev 1995: 153-156).

23 The National Commission became a standing body which met almost weekly, it was even agreed that the Commission's decisions would be binding on state organisations at lower levels (Thirkell/Atanasov/Gradev 1994: 106).

So tripartism was effective under Popov but abandoned under the following government that felt more secure by parliamentary majorities. The government of Filip Dimitrov first attempted to downplay the Commission and finally abolished it at the end of 1991 (Bönker 1993: 67f).[24] But especially under the Dimitrov government, the ruling SDS suffered from fragmentation and several splits, which weakened the parliamentary base of the government drastically. As in other transition countries the movement broke apart when the first democratic government had been installed and the business of policy making enhanced the differences in ideas and political goals among the former allies. The SDS also lost its formal ties with the powerful Podkrepa trade union and could then rely only on the revived pre-war middle-class parties, which are still part of it.

In addition, a conflict between SDS and its founder and president, state president Želiu Želev, emerged, paralysing parliament and the government. The SDS claimed it was manoeuvred out of power in October 1992 – when Dimitrov had to resign after he had also lost the support of the coalition party MRF – by the president, as part of a conspiracy in order to preserve political and economic rights for the former socialist elite. Although there was no proof of these allegations and the SDS did not behave more professional while in government, they achieved public attention by a hunger strike of one of their members and the resignation of the vice-president, Blaga Dimitrova, a popular writer. Problems were sometimes caused by the Turkish party that either played a mediating role between the two large parties or acted as a disloyal coalition partner and changed sides when perceived as advantageous (Melone 1998, 185-220).

Generally the political scene remained rather unstable with weak coalition governments, frequent votes of non-confidence and early elections which resulted in a slow law making process. Therefore, several laws were not implemented. In summer 1993 the government had to stand several conflicts with the IMF since it was unable to push trough the introduction of VAT, a bankruptcy law and the speeding up of privatisation. Political elites who profited substantially from their own market activities and who did not want to relinquish profits to the state blocked the implementation legislation as e.g. a more efficient tax administration (Campbell 1995: 770). These problems in decision making, weak party and parliamentary bases led to an alternation of unsuccessful "normal" governments and rather successful expert- and caretaker-governments whose legitimacy finally has also been undermined after a

24 Pressure by trade unions and continuing popular discontent led to the reintroduction of a more firmly based council in March 1993 (Martin/Vidinova/Hill 1996: 19) but it received no further meaning until the Kostov government revived tripartism after 1997.

while from one or the other parliamentary party. Until 1997, not a single government survived a full legislative term.

Concerning stabilisation policy as such, there were no other institutional veto-players, like the state president[25] or the constitutional court that would have tried to influence the government's decisions. Most problems were home-made by shortcomings in decision-making caused by problems in the respective coalitions. Trade unions were the only power that had some influence in certain periods. In 1992 and 1993 major strikes occurred, especially among the transport workers and the miners which usually resulted in wage increases (Martin/Vidinova/Hill 1996: 9). Tripartism as a means of solving social conflicts by integrating all sides in the decision-making process was used when governments could not rely on clear majorities in parliament or had difficult decisions to take and wanted to bypass parliament. But its effectiveness suffered from the difficulty to differentiate interests, a precondition for reconciling them and the varying willingness of the government to obey to its decisions (Martin/Vidinova/Hill 1996: 20-21).

Czechoslovakia

Stabilisation policy in Czechoslovakia was characterised by a continuous strategy, despite a political discrepancy between the national governments concerning the pace of reforms (Pehe 1990: 12). The reason for this stability was a successful and early implementation of social dialogue that had been pressed by trade unions. Here, negotiations as a form of conflict solution were preferred in contrast to direct confrontation. So, albeit Czechoslovakia had the most liberal reform approach it was a leader in signing the first corporatist agreement on macroeconomic questions in Eastern Europe (Bruszt 1992: 66-68, 70).

In 1990, protest against the government did not appear due to social burdens but because of grave restrictions in legal regulations of the freedom of assembly, especially of strikes, in the attempt to confiscate unions property and to impose a strike law which would never be practicable (Belina 1996: 61). Trade unions were very successful with the threat to hold a general strike and forced the government to change its strategy. As result not only liberations in legislation, but the establishment of a tripartite Council of Social Accord (RHSD) were agreed upon in October 1990. This council should prevent social conflicts arising as a consequence of economic reforms. The social-democratic politicians in the first post-communist government supported this new mechanism. Similar bodies were set up in both

25 Although president Želev had quarrels with the SDS government under Dimitrov and the following BSP government under Žhan Videnov and used his suspensive veto in several occasions. But these topics were of a political nature and not related to fiscal policy (Melone 1998: 215-217).

parts of the Czech and Slovak Republic. Its aims were to agree upon procedural collective agreements, to determine minimum employment conditions and to discuss labour, employment, social and economic issues as well as to coordinate policies towards labour legislation and conflict regulation. Each partner had seven representatives. Expert groups were established which facilitated to finish agreements. A general agreement was signed every year (Cembaliková 2000: 83-84, Cox/Mason 2000: 339-340, Fisera/Rusnok 1995: 52-53).

As a result of these talks, the unions accepted a 12% drop in real wages for 1991, and in 1991 a Law of Collective Bargaining was adopted. This law regulated relations between employer organisations and unions, including strikes and lock-outs, unions structures and all conditions of working contracts. In this time unions became more professional. Besides collective agreements it was also possible to conclude individual contracts. But in reality, private and public employers did not apply to wage schemes which were bargained in collective agreements nor did they pay more than minimum wages. The principle of the minimum wage level was to protect employee's interests but the level was so low that it only served the employers. In 1992, as unions received a greater scope in collective bargaining the government introduced a short-term 'excess wages' tax system in order to constrain growth in wages. The tripartite council agreed to this measure, albeit the government kept the right to set the final decision (Cox/Mason 2000: 341). Although the tripartite dialogue in Czechoslovakia first functioned effectively, prime minister Václav Klaus, elected in July 1992, principally opposed any form of interest representation. So, in the end of 1992 the formulations of the tripartite council became more and more general and the government did not fulfil the agreements any longer.

In 1992 a conflict between the central bank and the government arose as the Czech minister of interior, Jan Vrba, demanded that fiscal and monetary policy should be relaxed and state debts financed by the central bank. But the bank kept its policy on track, and this remained one of the rare attempts to undermine the independence of this institution (Martin 1992: 29-32).

Czech Republic

After the split of the federation, the Czech Republic continued the chosen liberal reform path and was able to maintain this policy. The new government still saw the tripartite negotiations as an important factor for keeping social peace. As Cox and Mason (2000: 341) mentioned, the social dialogue in the Czech Republic worked relatively well in keeping social peace until the mid of 1990s. But in 1995, the government tried to leave the social dialogue council after finishing its last task in privatisation and economic transformation. The government tried to avoid negotiations with social partners in the tripartite dialogue because they feared that the reform process could be slowed down. In the view of this government, union influence had to be limited to the enterprise level. In 1995, the tripartite Council for Economic and Social Accord was renamed as Council for the Dialogue of the Social Partners. Moreover, prime minister Klaus weakened tripartism by changing the tripartite statutes in order to exclude economic policy issues from the terms of reference. The role of the Council for Economic and Social Accord was downgraded and it turned into a purely consultative body. In 1997 the tripartite structure was re-established under the old statutes simultaneously with the formation of a minority Social Democrat government in July 1998 (Myant 2000: 4).

Massive protest actions in the form of strikes appeared in 1993 and 1997. The wage regulation in 1993 was contradictory to the general agreement signed earlier in the year. This provided the massive protests from both employers and trade unions because the tariff partners had previously accepted the need for constrained wage developments in line with economic growth, productivity and cost of living. This wage regulation was a sign for the unions that the government tried to evade the institution for social dialogue in which they had to be consulted. The problem in the Czech Republic was that tripartite agreements did not have a legal binding character. In the end, the course of government for stabilisation continued without influence from unions and employers protest caused by the inability of unions to mobilise their members towards a more militant form of opposition (EIU 1993/4: 14).

In 1997 the unions organised simultaneous activities outside of tripartite agreements like mass demonstrations in Prague and strikes in the public sector. The main issues for these strikes were political demands in health, education and low wages, impeding sectoral restructuring and privatisation plans especially for railways. A strike in the beginning of 1997 was due to the management’s proposal to shed about 40 thousand workplaces over three years. Employees threatened an all-out strike for higher wages and called for the resignation of the senior management. The government was forced to drop plans for the reconstruction and privatisation of the railway system.

As budget difficulties arose only in 1997, they finally terminated the premiership of Klaus (Fisera/Rusnok 1995: 41). The government formed after the 1996 elections had been a minority government with only 99 MPs out of 200. After a vote of no confidence that was called in June 1997 and succeeded because of the vote of one independent MP, Klaus had to resign. The main causes were increasing economic problems – in this case also budgetary problems arose – and decreasing confidence in constitutional institutions. The government had still used state-owned banks to support several non-viable enterprises in order to minimise unemployment. The weakness and instability of the government was ultimately demonstrated in December 1997 after a public scandal about party finances. In July 1998 a minority Social Democrat government was created. Still, there was no interruption in the political orientation (Bryson/Cornia 2000: 510, Mansfeldová 1998: 203). Public sector workers had taken part in strikes throughout the Czech Republic in the summer of 1998 over discontent with salaries. A dispute was settled only following a 17% increase in basic wages (Cox/Mason 2000: 339-340, Fisera/Rusnok 1995: 52-53). While, the Klaus government was not influenced through protest actions by unions and was able to keep the stabilisation policy on track. But the following social-democratic government of Miloš Žeman softened the stabilisation efforts in wage policy. Then the pressure from social interest groups was successful because of the weak situation of this new government.

Estonia

The continuity of stabilisation policy in Estonia was a product of the general consensus on economic policy among political elite and the population. Another very important financial but also psychological factor was the stable currency and the aim to defend the independence of the country. Several regulations as the requirement to keep a balanced budget secured the direction of stabilisation by law. The inability of opponents to mobilise efficiently, contributed further to policy stability.

Tripartite consultations were introduced in 1991 and in 1992 the first agreement on minimum wage was made. According to the Finnish example the trade union demanded the establishment of such a council and the government agreed after a while because it understood the preventive idea behind. But the effectiveness of the council has never been really tested since the conclusions on minimum wage were so low that they could easily be accepted, and real labour conflicts have never occurred.[26] The tripartite council functions as an advisory and consultative organ for fulfilling duties arising from the ILO membership. It consists of four representatives of trade unions and employer organisations respectively and six from the government.

Although workers have the right to strike, their intention to do so was rather low, instead they used short-time solidarity and warning strikes. The reasons are that public opinion of strikes is still negative as ordinary people associate them with communist actions. Trade

26 Interview in Estonian Ministry of Social Affairs, in Talinn, on 22 May 2001.

unions are economically weak so they cannot provide real material and legal guarantees for the participants (Kaadu 1999: 168). Another reason is that, like in Hungary, individual bargaining is preferred to collective since it is regarded as more effective.[27] Still, there would be enough reasons for protest since real wages have been decreasing, unemployment is rising and governmental strategies to promote economic growth are restricted to neo-liberal laissez-faire without specialising too much on certain policy instruments.

The political parties in Estonia have also been rather weak and fragmented. Votes of non-confidence and early step-downs of governments have occurred but they were not motivated by conflicts in stabilisation policy. Instead, the finance ministry always had a strong position in the government, and there have never been disputes about where to cut the budget. Ninety percent of the budget is fixed by the government, and therefore parliament has not much to debate about. In addition, state intervention has been very small from the beginning of transition and the structure of the budget is relatively strict according to the financial constraints, so this is no important topic for parties to argue about.[28]

Hungary

The delay of stabilisation policy in the beginning of transition depended mainly on the non-economic stance of the first democratic government. Instead, the Antall government stressed the political and moral overcoming of socialism. Since there was no real stabilisation policy, there was also nothing to mediate. Tripartism in Hungary was the earliest in Central and Eastern Europe, but still not taken very seriously. Only in the second phase, after the electoral victory of the Socialists in 1994, the government of Gyula Horn tried to achieve acceptance of its economic policy by extending tripartism, but this aim failed. The idea of interest reconciliation was vivant but in practise did not prove to be effective. Nevertheless, the Horn government was able to resist social pressure and to keep its programme on track.

The Antall government followed certain targets such as financial stability, privatisation and the attraction of foreign capital, but without a clear-cut plan. On the one hand the idea of it was discredited by the past planning economy, on the other hand the Antall government preferred a gradual transition. To a certain extent this was adequate, since Hungary did not suffer from a hyperinflation or a totally closed economy. Yet, this non-policy implied that Hungary performed less well than it could have during the first years of transition. The reasons for this behaviour were several: the professional background of the leading

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27 Interview in Estonian Ministry of Social Affairs, in Talinn on 22 May 2001.

28 Interviews in Ministry of Economic Affairs, in Talinn on 24 May 2001 and with Estonian MP on 25 May 2001 in Tartu.

politicians, as they were mainly historians and schoolteachers and therefore un-experienced in economic affairs, and they believed in the gradual strategy. They also concentrated on other, more political and societal fields of politics: the return to Europe and the debate about compensation for communist offences. The law on land compensation which had to be implemented due to the pressure of the coalition partner, the Smallholders, also consumed a lot of time.

The government did not want to hurt people what they achieved more or less. They gained certain positive results and since their public emphasis was more on the non-economic topics, public protest was not oriented against economic measures but against the overly national and cultural-historical re-definition of history and the societal self-understanding. Apathy and a loss of legitimacy were the result. For this reason they voted against the Antall government in 1994. Hence, the non-economic policy prevented the government from loosing its majority earlier. But as the economic situation had aggravated, the success of the Socialists was also explained by economic hardships.

Protests from the society did not emerge because of the gradual transition, and the only outrage was the taxi-driver blockade in October 1990. But the reason for these protests were rising fuel prices that led to a kind of a belated substitute revolution for the transition from above (Sell 1999: 207). Because of expanding pluralism, trade unions were rather weak during the first years, so there was no organisational channel of protest. The old socialist trade union SZOT survived and was able to keep most of its members and assets, renamed to MSZOSZ. Several new independent trade unions were founded in 1988/89 but most of them seemed too intellectual to the workers and did not gain their confidence (Galgoczi/Reti 1995: 100-105).

Still, there have been some smaller strikes and other forms of protest organised by trade unions, especially in order to demand higher wages. That they did not occur very frequently has three main reasons: first, employers had a much stronger position on the labour market; second, a lesson from the past was that collective protests did not prove to be effective, so workers still preferred individual ways for improving their situation; third, private employers were still too weak to serve as a partner on the branch or even national level. Only after 1992 did collective bargaining take place in the Council for Interest Mediation, but the decisions of the Council were not binding for the government.[29] Despite this weakness, nominal and real wages rose between 1993 and 1994. After the Socialists took power, wage controls were re-

29 The council of Interest Mediation was introduced already in 1988 and revived after the taxi driver's blockade in October 1990. Still, until mid-1992 it was rather a consultative body with the government playing the dominant role.

introduced and bargaining in the Council of Interest Mediation was abandoned (Sell 1999: 183-186).

When the Socialists planned their shock therapy like measures in 1994/95, they tried to legitimise their action by a social pact. By integrating the social partners the acceptance of their membership should be secured for the whole legislative term. But the concrete ideas and interests behind differed on all sides. The Free Democrats, the coalition partner, wanted to reduce wages and prices, but the Socialists set on the redistribution of social costs and budgetary concessions were not possible. Yet, this was exactly what the trade unions demanded: higher wages and say in privatisation. Employers wanted to reduce the influence of the trade unions and asked for more flexibility in wage policy. During the negotiations, starting in October 1994, it was not possible to achieve an agreement and the strategies all sides used did not lead to a compromise. As a result the government declared the talks as a failure and ended them on 5 February 1995. Still, the government had enough power to put their reform package through parliament on 14 February, but for the price of high social tensions. The Constitutional Court cancelled the welfare related measures of the Bokros-package later. Thus, the Hungarian government managed to silence the articulation of interest by using methods of division, selective management and neutralisation (Bruszt 1995: 223).

Poland

The consensus over the necessity and stance of economic reforms was the reason for continuities in stabilisation policy despite a fragmented political spectrum and weak coalition governments. This weakness even helped to keep the policy on track when its critics did not find a majority in order to put through a change in 1991. The political scene was characterised by a close connection of trade unions and parties. Trade unions were strong and did protest but the government was able to reconcile conflicts and maintain its policy. Conflicts frequently occurred with the state president. He was in favour of economic reforms but used his say in budget policy to strengthen his political power and delayed the implementation of the budget several times.

In the beginning of transition the government, the head of the parliamentary caucus, and the finance minister tried to establish a reform spirit among the Solidarnosc-members. They tried to change the slogan “we against them”, meaning the socialist authorities, into “we against it”, meaning the old economic system and the inflation created by it (Vinton 1990: 23). This consensus was stable during the first two years. In 1991 when the first free elections were held in Poland the economic policy was a major dividing line. The leading candidate, Jan Olszewski, had promised to loosen the anti-inflationary measures of the Balcerowicz-programme and promote anti-recession government spending. In the course of government formation, disputes between state president and parliament emerged. First president Lech Walesa did not accept Olszewski, then he did not accept his list of ministers, but in the end Walesa had to give in.[30] This stalemate over the formation of the government exacerbated the budget crisis and in the end also Olszewski had no other choice than to follow the previous course of budget discipline. This created new tensions with the trade unions, which organised a nationwide one-hour strike and other protest actions (Vinton 1992a).

Hence, the president acted as a veto-player since the constitution gave him a veto-right in legislation and additionally the possibility to dissolve the parliament if the budget was not brought into law three months after reaching the parliament. This regulation was used by president Walesa who did not sign the budget for several times as a means for obstruction, especially when there was a coalition government opposite to his political ideas as after 1993 when the former Socialists took on power. But since then there were clear majorities in parliament, so it was able to refrain from dissolving itself and claimed the action of the president unconstitutional (EIU 1/95: 10).

Concerning the wage development, protest against the popiwek-tax arose very quickly, from workers, trade unions and opposition parties but also from economists who argued the desired effects were only achieved by other negative developments like hidden unemployment or decreasing demand leading to decreasing productivity and preserving inefficient structures. Although the government eagerly tried to reject the arguments, popiwek became the scapegoat for all economic hardships (Vinton 1991: 26f).

During summer 1992, the government of Hanna Suchocka, elected in June 1992, was confronted with a wave of nationwide strikes against the negative outcomes of the economic reforms. In general, higher wages were demanded by coal and copper miners, a formerly privileged group, the "aristocracy of the industrial working class", although in terms of pay they were still at the top, and the employees in the aviation industry. But these enterprises were not doomed to disappear but were those who had potential for the future. The government insisted on not being a third party in this dispute but tried to provide a systemic solution to the problem. Jacek Kuron, minister of labour and social policy, met with representatives of the most important trade unions in order to discuss the basis of a social pact. The response of the union leaders has been mixed, while Solidarnosc was prepared to negotiate on the social pact,

30 According to the constitution, the president had to be consulted before announcing the ministers and in practice he used this unclearly formulated article in order to set the government under pressure and to enhance his influence on political decisions.

the post-socialist OPZZ followed a dual strategy of negotiation and confrontation. Other, smaller unions remained more radical and did not accept the offer (Sabbat-Swidlicka 1992: 11).

The Suchocka government was quite successful with its strategy: it refused to intervene in local wage disputes but invited the trade unions to an open dialogue on all other subjects. The social pact should guarantee a moratorium on strikes and unreasonable wage demands on the part of the state workers while the necessary restructuring took place. It included several legislative proposals such as a debt relief for firms with good prospects, the replacement of the excess wages tax with a negotiated yearly limit on wage increases, the provision of free shares in privatised enterprises for employees and the government planned an additional pact for social services. Their aim was to accelerate privatisation by making the stabilisation process more attractive to the work force (Vinton 1992b: 13).

This pragmatic effort of the Suchocka government was the first attempt to establish a tripartite structure in Poland as a reaction to social unrest. Only the Suchocka government had the power to do so. Her predecessor Olszewski tended to rather make declarations than take action and did not have enough support in order to realise his promised actions and the room for manoeuvring of the former Bielecki government had been reduced by the forthcoming elections in September 1991. Additionally the Suchocka government profited from its labour minister, Jacek Kuron, a veteran activist who declared that even a social-democrat had to defend rightist economic measures in a time of transition and who was able to give a clear picture about what was awaiting the people and took theirs fears seriously (Vinton 1992b: 17).

The success of Suchocka's government did not last for long. The next political hurdle was the budget vote in 1993 when the parliamentary opposition argued against the planned connection between pension and public sector wages reform. Also parts of her seven party coalition were not clearly in favour of the continuation of the austerity measures. Suchocka threatened with resignation and this time president Walesa's threat to dissolve the parliament if it would not adopt the budget in time proved to be effective. After a heated debate and several talks behind the stage the government won the budget vote with a very small margin of 230 to 207 after embarrassing defeats in earlier ballots (Vinton 1993).

The success of conflict mediation in Poland depended heavily on the political strength of the government and how far it was able to secure its majorities in the fragmented parliaments. It was the only country to introduce tripartism rather late as a reaction to an existing conflict but this effort proved to be effective.

Slovak Republic

The course of stabilisation policy was unstable and contradictory. At the beginning of the newly constituted republic there was strong pressure to change the reform path from a shock therapy method, which had been preferred by the Klaus government, to specifically Slovak measures, and to slow down the pace of economic reform especially in privatisation. The main economic reason for the split of Czechoslovakia into two autonomous states was that the reforms disproportionately harmed the Slovak economy because of differences in the economic structure and distribution of social costs between Czech and Slovak Republic. The first government after the split of the federation under prime minister Vladimir Meciar offered a third way with relaxed fiscal and monetary policy. Despite this rhetorical formulations in 1992-1994, the government was basically following fiscal policy reforms which were introduced during the Czechoslovak Federation (Morvay 2000: 41-44). But the slow down of the reform pace had a negative impact on the economy and, in the end, on macroeconomic stabilisation. At this time Meciar already started to soften the stabilisation policy.

In the first legislative term social conflict was mediated in the tripartite structure. After the split of the federation the tripartite council reached higher reputation in Slovakia.[31] In general, in Slovakia no really grave protest occurred. The main cause was a relatively nation-wide social equality because of a low level of income inequality.[32] However, the government had to resign because of a successful vote of non-confidence in 1994. The following government of Jozef Moravcik, elected in March 1994, forced reform legislation. Temporarily, the time between 1994 and 1995 was the most successful period for the Slovak economy mainly caused by a relatively stable macroeconomic framework which was supported both by former restrictive fiscal and neutral monetary policies and by budgetary improvements.

After the early elections in December 1994 Meciar was again elected as prime minister.[33] In this period the efforts for a restrictive fiscal and neutral monetary policy were relaxed by the government although there was an economic need to continue this policy. In 1996 the government started to promote investment through infrastructure measures. Highway construction was pushed forward so that the first results should have been visible before the next elections in September 1998. Furthermore, the government offered tax-reliefs like tax investment credit to several entrepreneurs. There was also an attempt to support non-reliable, often indebted firms by the state. Tax evasion increased rapidly in that time. Corporate profit

31 Interview with Monika Cembaliková, Slovak Academy of Sciences in Bratislava, 9 May 2001

32 In 1994 two thirds of employees received less than two times the minimum wage, and 90% were below the level of three times the minimum wage.

33 When the Moravcik government entered office the parliament decided new elections for the end of the year 1994.

tax decreased from 6.8%of GDP in 1995 to 3% in 1999. Inefficiencies in social security and higher unemployment changed the social security GDP surplus of 0.8% to the deficit of 1% in 1999. As a result of the incomplete implementation of the economic programme the reform process slowed down (Tóth 2000:77-78). In this period the Meciar government did not face serious veto-players. Relaxing the stabilisation course was only motivated by foreseeing parliamentary elections in 1998. It has to be emphasised that Meciar used the tripartite council to evade the parliament. Since the parliament had to discuss all bills and regulations which were negotiated in the tripartite council, this secured the discussion of a topic when it was clear that there was no majority for it in the parliament.

In order to solve financing problems the Meciar government also attempted to question central bank independence.[34] The National Bank of Slovakia (NBS) existed and started to perform its function since the independence of Slovak Republic on 1 January 1993. The NBS is constituted as a politically and economically independent institution. But, in September 1997 the government put forward an official parliamentary proposal to amend the law on the NBS. The government demanded changes concerning the number of members and the possibility to appoint and recall half of them. Second, the parliament, and not the NSB Board would approve the central bank budget because the government wanted to gain resources for its revitalisation programmes of selected firms and banks. The amendment also included besides other changes, the increasing of the amount that the central bank can lend to state budget from currently 5% to 10% of state budget revenue of the previous year. The amendment would have undergone systematically the independence of the central bank. In the end, the central bank did not agree with the amendment and it did not pass the parliament. The attempt of the Meciar government was not successful and had to give up (Beblavý 2000: 110/111, Marcincin 1997: 22).

On the other hand, social protests arose as increase of real wages by 7.2% between 1996 and 1997 the government lead to prepare a draft law on wage regulation (Marcincin 1997: 13). In 1997 the Meciar government unilaterally adopted a law on wage regulation without consulting the social partners and despite protests. The law regulated wages in state and private enterprises, including wages of managers.[35] But, whereas labour productivity increased from 1989 by 15%, real wages decreased in the same period by 17%. The unions rejected the law, left the council for social dialogue and organised several demonstrations. In autumn 1997 a petition was signed by more than 137 thousand unionists in which they

34 In the same time period foreign debt rose by 22.7% and net domestic credit to the government rose by 32.4%.
35 In general, wage regulations existed only during short periods of time.

protested against wage controls and austerity measures, and demanded the government to revoke the law. Furthermore, they wanted the government to implement measures for an improvement of living standards and the situation of employment (Malová 1999: 122-130).

These protests against wage regulations were not successful. The government did not change anything in this respect and explained that wage controls had been an instrument in helping the government to reverse the increase in real wages over productivity. This demonstrated that the tripartite dialogue between 1994 and 1998 enabled the government to ignore the rules set out by the general agreement. The increasing autocratic tendencies of the government were reflected in the way the social dialogue developed. In general, conflicts in 1993 and 1996 between the social partners resulted either in a general agreement being postponed or in the government acting without the agreements of both employers' and unions' side. Tripartite dialogues did not take place from 1997 to 1998. Between 1996 and 2000 it was not possible to solve any social or political conflicts for the named reasons. After that, the representatives of the trade unions left the negotiation table, saying they would not return until the government terminated this law or passed a tripartite law. The government fully ignored the unions' demand and, moreover, instead launched in November 1997 the Economic and Social Council (ESR) in order to replace the Council for Economic and Social Accord (RHSD). As reaction, the unions tried to mobilise their members. Moreover, a look to the political background shows that the government had a strong position to be able to ignore any form of protest because of its majority situation (Malová 1999: 122-130, Lubyová 2000: 174).

Social dialogue continued in 1998 only at the levels of firms and industrial sector. The national social dialogue was affected by dysfunctions resulting from conflicts between 1994 and 1998. After the elections in 1998, the Meciar government unexpectedly accepted the union's demands and suggested increasing minimum wages to 4000 Slovak crowns. The attempt behind this action was to make the new cabinet's position more precarious. The new government of Mikuláš Dzurinda, elected in September 1998, abolished the law on wage regulation and entered into negotiations of social dialogue, but was not able to fulfil the suggestions facing a very grave economic situation. Moreover, in the first half of 1999 the government instead adopted two austerity packages[36] without consulting social partners. These programmes led to a sharp decline in the living standard among a large part of the

36 The first programme included increasing prices of transportation, energy, water, postal tariffs and food, and the second one concerned increasing VAT, excise taxes and reintroduced import surcharge.

population. Demands of unions to revoke wage controls, rising wages proportionally to the inflation rate and reducing the income tax were not considered.

As a result, the unions turned to organising protests to support their demands. From February to September 1999 many strikes and protests were organised in regional capitals of Slovakia. On 25 September 1999 the Confederation of unions held a nation-wide protest rally in Bratislava. As a result, the government had to fulfil several demands. In March 2000 the social partner signed a general agreement which replaced many measures which was introduced before in the so-called austerity packages, but also bound unions on the principle, e.g., that wage growth not exceed inflation. This agreement has to be judged in the context of the overall political situation. At the same time, the opposition launched a referendum on early elections and the government did not want to deal with both union strikes and political pressure from the opposition. On the other hand, the Dzurinda government had looked for cooperation in the social dialogue. Thus, the Economic and Social Council (ESR), established by the Meciar administration, and the wage regulation legislation were abolished before tripartite negotiations were re-established in 1998. Also in 1999, a law on Economic and Social Partnership was passed which regarded the representation of the social partners and the financing of the tripartite council. All in all, only during 1999 and 2000 did the course of the national social dialogue follow the principles of participartory democracy (Malová 2001: 125-129). Concerning stabilisation policy the Dzurinda government changed its course because of simultaneously strong veto-players both from society (unions) and from political actors (opposition).

Slovenia

The course of stabilisation policy was continuous and stable. Slovenia had chosen a gradual method for reforms and this strategy drew through all measures. Very important for the continuity in stabilisation matters was the support of the society deriving from the collective aim of securing the independence of the country after 1990. The fact that there were no budget and balance of payment deficits allowed the gradual reform pace and a case to case decision reform method. Social costs of transition were relatively low. These were some reasons why no serious social conflicts arose.[37] Furthermore, political changes did not concern economic and reform policy. All governments were majority governments and although discrepancies and instabilities always existed between coalition partners a consensus

37 Interview with Janez Šušteršic, Office for Macroeconomic Analyses, in Ljubljana, 14 May 2001

about stabilisation policy and its continuity was maintained.[38] But the choice of a slower reform pace resulted in a delay of important reform steps like the liberalisation and reconstruction of the tax system and privatisation (FAZ 08/1998: 5,11).

The most successful instrument in macroeconomic stabilisation was the introduction of the Slovenian currency which secured monetary stabilisation. The fiscal discipline has significantly improved in contrast to the pre-transitional period. In 1993 most of Janez Drnovšek's fiscal reforms were implemented. Although the state budget always showed a small deficit was there a need for restructuring because of the government's habit to finance higher expenditures with an increasing in taxes[39] (FAZ 02/1999: 11). Economic policy has been less successful in controlling wages. Wages controls did not seem to be an important instrument for stabilisation policy. Real wage growth deviated from the growth of productivity and output. Since 1993, real wages have been growing faster than GDP and this had negative effects mainly on employment (Sušjan 1996: 394/395). On the positive side, the government has been able to stabilise the economy. The negative side of measures of fiscal reform was a rapid increase in unemployment (Andrejevich 1992b: 30).

Industrial relations were regulated by collective bargaining since 1989 but a tripartite social agreement between government, unions and employers was established only in 1994 in order to provide a consensus on regulations in wage policy and basic macroeconomic policies (Vodovnik 1998: 94). In 1992, 1994 and 1995, unions organised strikes because entrepreneurs did not pay wages or other agreed payments like for holidays. In these strikes, wage increases were not an issue.[40] In contrast, politically motivated strikes occurred in 1992, 1996 and 1998. The issues demanded were increases in wages or the abolishment of wage ceilings.

In 1992 the government decided to introduce limits for wage growth. These limits had to be set in line with inflation development which was actually 30% p.a. Initiated by metal and power industry unions, some 400 thousand workers took part in a general warning strike over the decline in the living standard on 18 March 1992 which was brought on by the government's failure to launch a comprehensive economic reform programme. The government accused the opposition of initiating the strike to bring down the government. As the organisers threatened another strike for April 1992, the government changed the law of wage ceilings. This situation led to the resignation of the deputy prime minister Andrej

38 Interview with Marko Lah and Miroslav Stanojevic, University of Ljubljana, in Ljubljana, 15 May 2001

39 Expenditures for pension and health insurance are excluded from state budget. These expenditures (14.1% and 7.3%) represents almost the same share of GDP as the central budget expenditure (21.1%) of GDP (Ferfila/ Phillips 1999: 246).

40 Interview with Gregor Miklic, General Secretary of Union of Free Trade Unions, in Ljubljana, 15 May 2001

Ocvirk, who was responsible for economic policy. The resignation of further members was mainly a consequence of disagreements over economic policy (Andrejevich 1992a: 18-20). In the end, the government of Lojze Peterle had to resign in May 1992 because of a successful vote of non-confidence. Additionally, Peterle's own party insinuated him as incompetent and criticised his management style. But objective economic problems complicated the situation and government's capacity to act, too.[41] As a result, the government faced very strong political and societal veto-players. Although it was a majority government, special mistakes and failures invoked protest and pressed the government to withdraw.

In the strikes in 1996 and 1998, unions demanded higher wages as a compensation for both, growing inflation and increasing productivity. In March 1998, more than 20 thousand workers took part in strikes against the government's attempt to approve a law concerning the reform of the pension system. These strikes were also successful in bringing the government to give in.[42] In further negotiations of the social partners, wages were index-linked to the development of inflation. Increases in wages had to be only 85% of the growth of consumer prices. In spring 1997 and January 1999 the general agreement containing this moderate wage policy was signed by the social partners. The Council for Social Agreement is planned to fixed by law not before 2001 (FAZ 1999/2: 9).[43] As a result it can be formulated that the government on the one hand was able to give in to the protests of the unions because the economic situation of the country was stable, and on the other hand had to give in because of the still rather big share of state-owned enterprises.

4. Conclusion: Modes and Conditions of Coping with Action Dilemmas

The aim of the paper was to explain the political reasons for different results in stabilisation policy among seven Central and Eastern countries. Several scenarios were formulated concerning the connection between the intensity and effectiveness of social protests, the room for manoeuvring of the government and the impacts for the formation of stabilisation policy. Our findings can be summarised in the following way:

41 Interview with Drago Zajc, University of Ljubljana, in Ljubljana, 17 May 2001

42 The pension law was changed from the planned level of 60% to 72% of average wage and the average pension age was set at 63 years for men and 62 years for women but the minimum level had to be 58 years.

43 Interview with Gregor Miklic, General Secretary of Union of Free Trade Unions, in Ljubljana, 15 May 2001 and Peter Stanovnik, Director of the Institute of Economic Research in Ljubljana, 16 May 2001

Table: Synopsis of results

	government's room for maneouvring (political majorities)	protests against stabilisation policy	conflict media-tion (tripartism) introduced	impact on stabilisation
Bulgaria	medium	partially	preventively	none
Czechoslovakia	large	none	preventively	yes
Czech Republic	large (from 98 small)	seldomly	preventively	none
Estonia	large	none	preventively	none
Poland	medium	frequently	reactively	yes
Slovakia	large	seldomly (only 97)	preventively	none
Slovenia	large	frequently	preventively	yes
Hungary	large	partially (in 94/95)	preventively	none

The only country that did not face large social protests was Estonia and as a consequence the direction of the government's stabilisation policy was never injured. The long lasting consensus in society on this economic topic and certain legal regulations enabled the respective governments to proceed unrestricted from nontheless existing political cleavages.

In all other countries social protests did emerge, mostly against the restrictive wage policy. The strength of trade unions differed considerably. Still, they were only then able to force the governments to give in to the pressure when there was additional pressure within the political sphere, either from parliamentary opposition or from own coalition partners. This was the case in the Czech Republic and in Slovakia after 1998 when minority governments were in power. Due to the comparatively slower privatisation process in Slovenia, the state here was still the largest employer, so the strikes achieved enough pressure to force the government to change its policy and to rise the wages. Still, the country was able to maintain the chosen stabilisation policy because its gradual character caused less social costs.

Hungary also followed a soft stabilisation policy first in order avoid social costs. Yet this behaviour was not related to certain single areas of stabilisation, but here it rather depended on the respective government. After the soft approach of the Antall government had worsened the economic situation, the successive Horn government set on the preventive function of tripartism. But due to the inability to mediate between the different interests of the participants, this effort failed. Because of its clear parliamentary majority the government was then strong enough to put the stabilisation package through without considering the protest of trade unions.

The shifting path of governments between remaining strict and simply ignoring the protests or trying to mediate them via tripartite councils was also characteristic for the other countries. In Poland, the government was able to maintain the stabilisation policy more or less unchanged after the first consensus was over by effectively using the tripartite mediation council. As this mechanism was not introduced to prevent a possible conflict but as a reaction towards an existing one, it was possible to design a very case-related compromise. Conflict mediation was successful because the coalition governments though fragile was not pressed further by the opposition. In Czechoslovakia trade unions demanded already a preventive forum for conflict mediation. The government then supported the establishment of a tripartite council and also set on negotiations, after it had not been successful in preventing the occurrence of social protest by implementing a strict law on strikes and demonstrations. The attempt to chose the restrictive path in dealing with potential conflicts was then followed after the separation of the two republics. The Czech prime minister Klaus unhinged the tripartite council and was not willing to negotiate with protesters. Concerning wage policy, his counterpart in the Slovak republic prime minister Meciar reacted in the same way and did not change his policy when confronted with social protest. This hard line was also followed in times when there was no inflationary pressure. In budget policy instead, Meciar softened his policy stance before any kind of protest did arise because he aimed at producing national capital and entrepreneurs on the one side and feared about his re-election on the other side.

Only, in Bulgaria political problems were so strong that they delayed stabilisation policy, even without too much pressure from the trade unions. Governments were weak and here it was difficult to overcome the dilemma of simultaneousness concerning political and economic transition. A discontinuous policy making and problems in implementing laws were the result. Additionally tripartism was also introduced early, on the initiative of the trade unions and achieved the possibility to tackle a very broad scope of topics, but this led to dysfunctional developments. The government sometimes used the tripartite structure in order to bypass parliament and also the social partners used their possibility to introduce bills. This had an indirectly negative influence on stabilisation policy and law making in general because it affected an institutional learning that deteriorated the parliamentary mode of decision making further.

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Annex

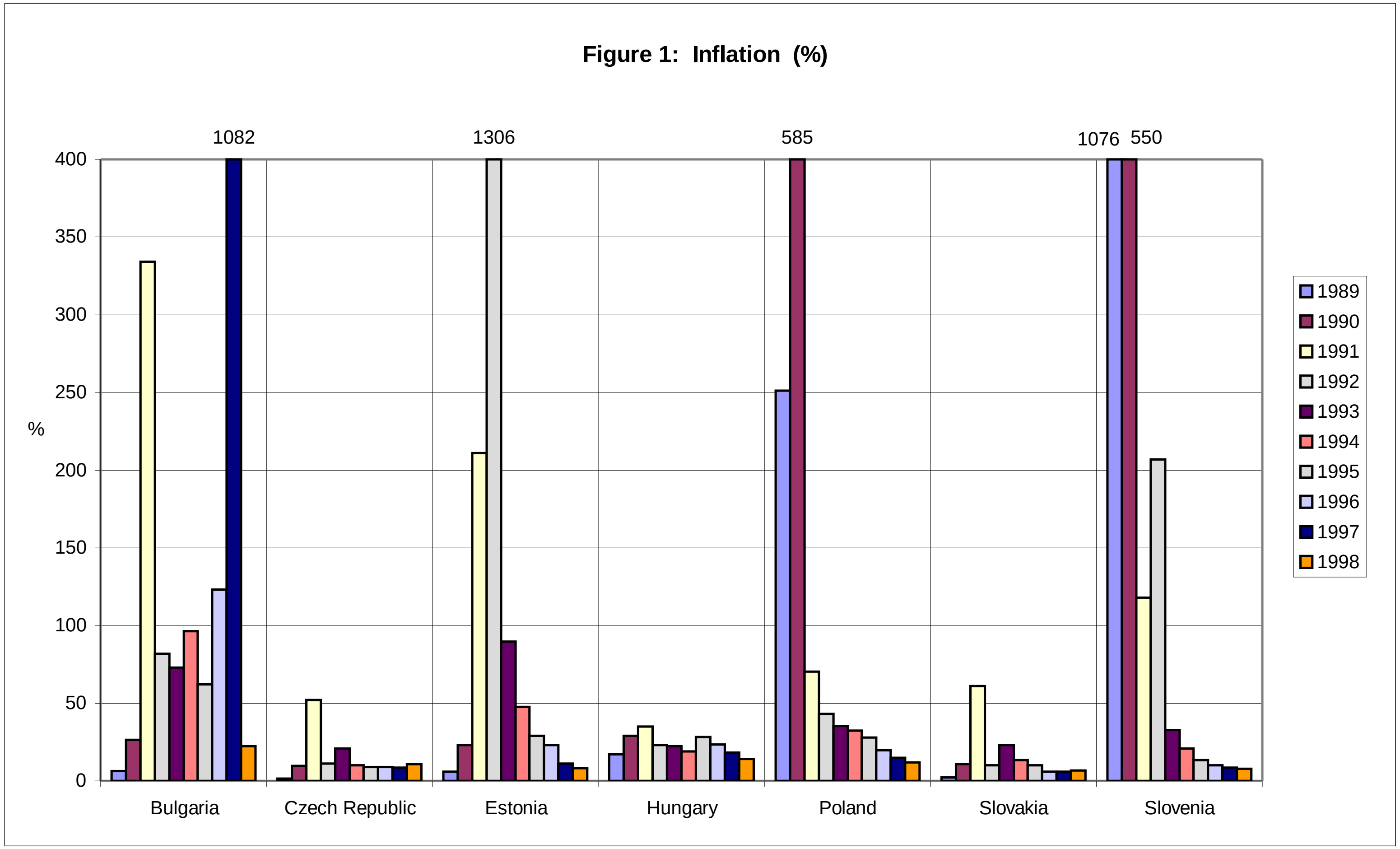
Figure 1: Inflation (%)
1082
1306
585
1076
550
400
350
300
250
200
150
100
50
0
%
Bulgaria
Czech Republic
Estonia
Hungary
Poland
Slovakia
Slovenia
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998

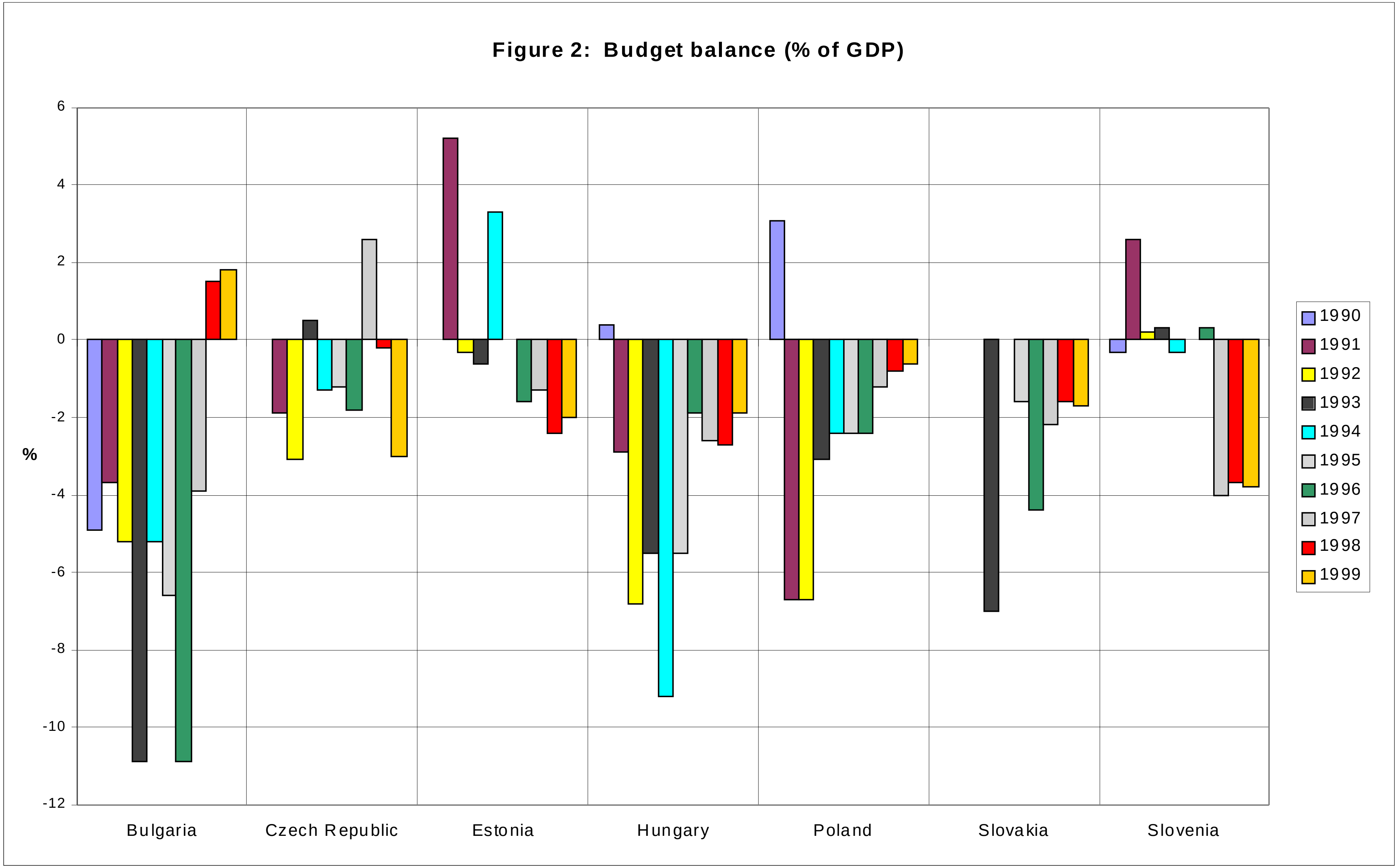
Figure 2: Budget balance (% of GDP)
6
4
2
0
-2
-4
-6
-8
-10
-12
%
Bulgaria
Czech Republic
Estonia
Hungary
Poland
Slovakia
Slovenia
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999

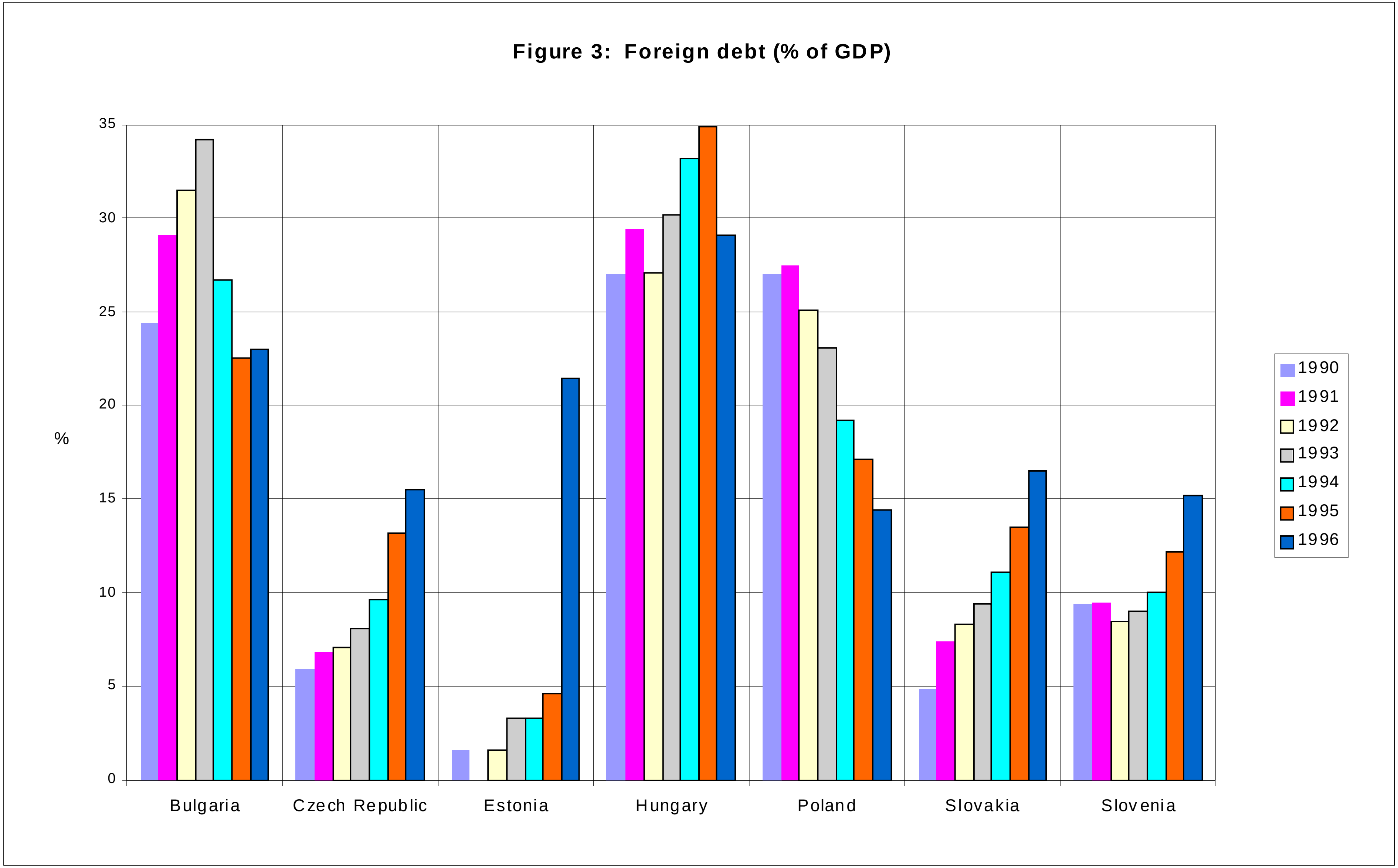
Figure 3: Foreign debt (% of GDP)
%
35
30
25
20
15
10
5
0
Bulgaria
Czech Republic
Estonia
Hungary
Poland
Slovakia
Slovenia
1990
1991
1992
1993
1994
1995
1996

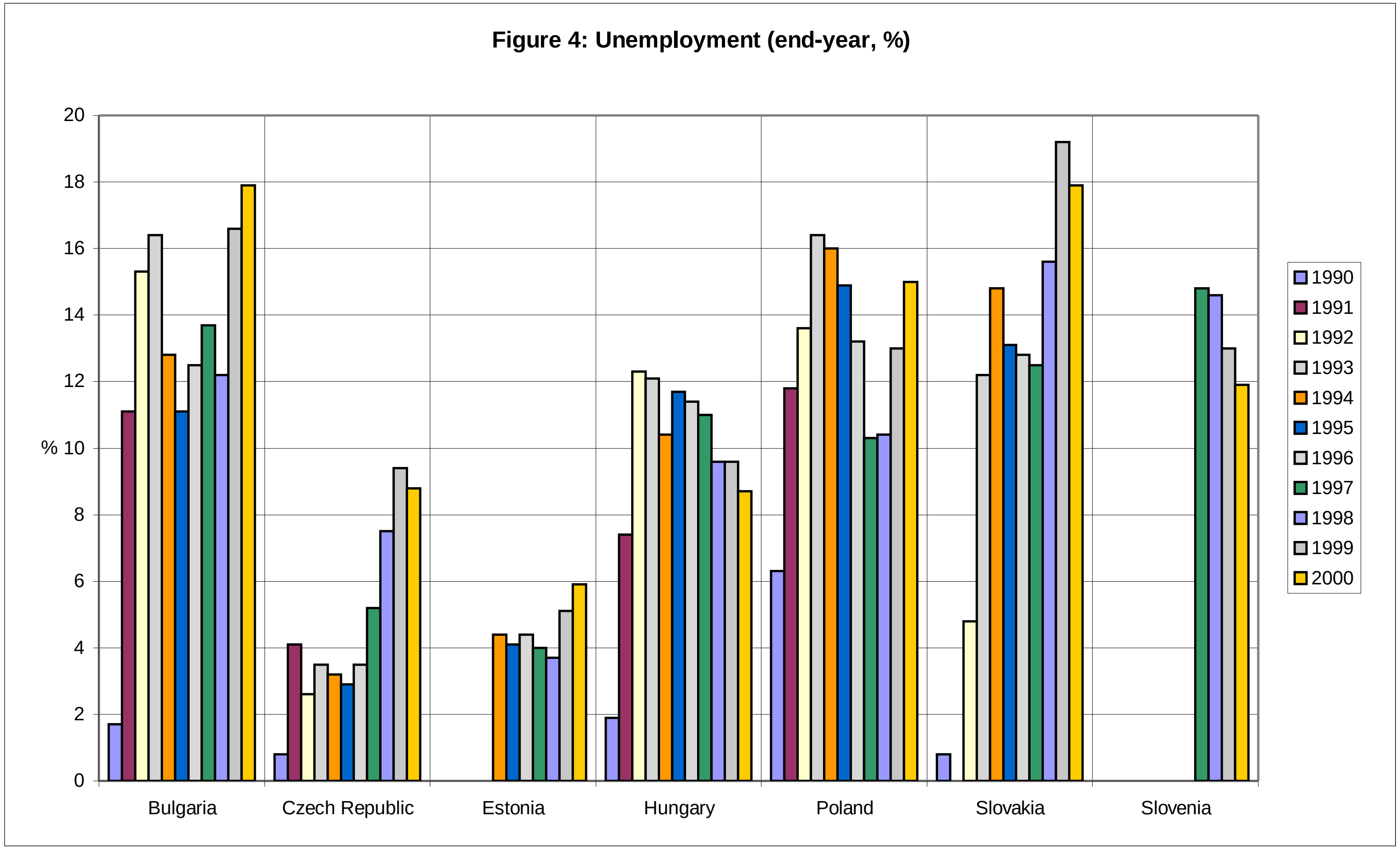
Figure 4: Unemployment (end-year, %)
%
0
2
4
6
8
10
12
14
16
18
20
Bulgaria
Czech Republic
Estonia
Hungary
Poland
Slovakia
Slovenia
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000

Figure 5: GDP per capita PPP ($)