

Neo-corporatism reinstated?

The impact of the crisis on the credibility of Baltic trade unions

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Introduction

This paper¹ analyses the intersection of global recession with the viability of social dialogue between labour and capital, in post-communist states. It examines the crisis in a region where its effects have been the most pronounced, the Baltic countries of Estonia, Latvia and Lithuania, formerly Soviet republics and now full members of both NATO and the European Union (EU). The ‘shock’ of global economic and financial recession has had severe impacts on Baltic economies and therefore also has demanded radical changes on the part of governments. Through an analysis of responses to the crisis, this paper attempts to assess the inherent strengths or weakness of social dialogue in the region. We suggest a failure of trade unions to influence the course of governmental crisis response measures. This has resulted from the inherent weaknesses of post-communist trade unions, permitting governments to introduce fiscal policies largely unopposed. These measures have provided the primary means of adjustment to spiralling budget deficits in Latvia and Lithuania. In Estonia, which had previously succeeded in maintaining one of the lowest budget deficits in the EU, the crisis response measures were motivated as much by the determination to avoid the same predicament as its Baltic neighbours, while mitigating the almost as severe economic impacts of the crisis. In the main, fiscal interventions have been dictated by the desire of national governments to prioritise the longer-term goal of remaining

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candidates for European Monetary Union (EMU) membership, while pursuing the path determined by international lenders and local borrowers to deal with their immediate predicaments. Future membership of the EMU, although with hindsight in the wake of the crisis an increasingly unlikely prospect for Latvia and Lithuania, would offer the prospect of providing attractive sites for future foreign direct investment, as well as insurance against potential capital outflows.

First, the economic contours of the crisis in the Baltic States are described, taking into account the differences between each country. Second, the various governmental crisis-response measures are outlined, and the key question is posed: how is it possible to sustain an accord between capital and labour, given the scale of sacrifices imposed on the latter? To answer this, the third part of the paper, overviews existing arrangements for social dialogue and the structure and density of trade union organisation in the post-communist era. Fourth, the responses of organised labour to governmental policy are discussed. It is suggested that after initial potentially destabilising opposition, the trade unions have increasingly come to accept a revival of previous neo-corporatist compromise arrangements.

The contours of the crisis

Since the collapse of the Soviet Union at the beginning of the nineteen nineties, all three Baltic States have adopted of neo-liberal ‘open market’ policies of economic and social reconstruction designed to promote foreign direct investment (Bohle and Greskovits, 2007; Aidukaite, 2009). By the middle of the present decade, the Baltic States collectively dubbed ‘tiger economies’, had received a special accolade for their efforts in introducing free market reforms from the World Bank (World Bank, 2005). The successful economic transition was marked by steadily high growth levels of GDP from the beginning of 2000, but mainly since joining the EU in 2004 up until 2008. In Estonia and Latvia, the average yearly growth of GDP exceeded 8 per cent and in Lithuania it reached around 7.5 per cent during 2000-2007, while EU27 average was less than 2.5 per cent (see figure 1). The unwelcome corollary of higher GDP growth rates, largely based on the development of unsustainable economic sectors financed by external liquidity, has been the relative sharpness of the decline occasioned by the crisis, significantly greater than the average downturn for the EU.

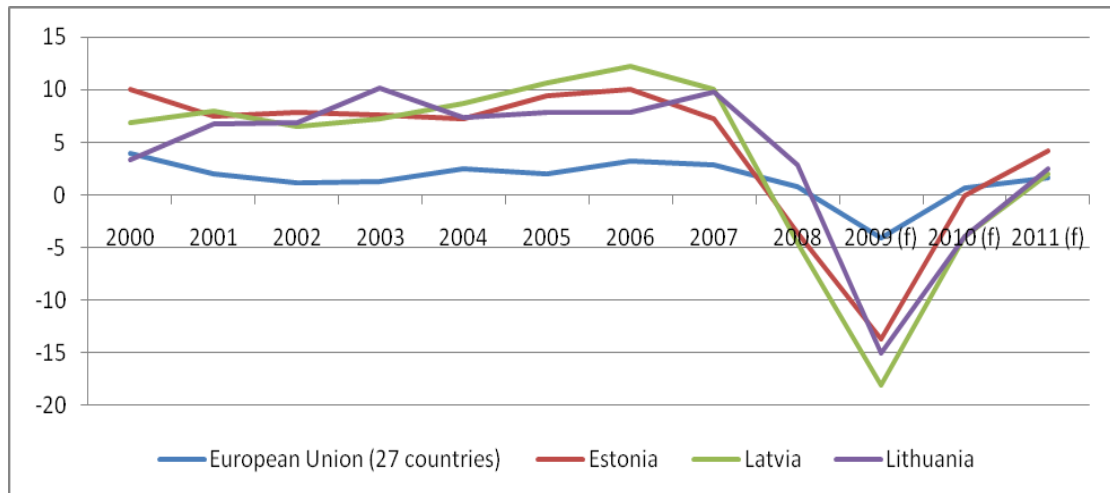


Figure 1. Real GDP growth rate compared to previous year

Source: Eurostat [26.02.2010]

(f) - forecast

Previous growth in the Baltic economies had been largely based on ‘bubble’ economics. Property speculation and an orgy of profligate personal consumption, fuelled by cheap foreign credits courtesy mainly of Swedish banks, rather than investment in productive industries, had produced much of the spectacular GDP growth. As a result, the Baltic States were economically vulnerable to an inevitable ‘hard landing’, contingently exacerbated by the systemic problems of the global financial system. All three countries subsequently experienced sharp economic downturn with collapsing output, a severe ‘correction’ in property prices, and rapidly declining income and consumer consumption levels, as widespread unemployment gripped their economies.

By the spring of 2009, the European Commission economic forecast for the Baltic States was gloomy, with the economic downturn predicted to be ‘deeper and more protracted than previously assumed’ (European Commission 2009: 80). Already in 2008 compared to 2007, Estonia and Latvia had witnessed decreasing GDP. By the 4th quarter of 2009 compared to the previous year, GDP had decreased by 17.9 per cent in Latvia,, 13.2 per cent in Lithuania and 9.4 per cent in Estonia (the three most significant declines in the EU, with the only other countries in Eastern Europe, Bulgaria at 6.2 per cent and Romania at 6.9 per cent, approaching these figures. The

EU27 average decline for this period was 2.7 per cent (Eurostat 2010a). An economic shock of this scale has had its impact on labour market. In 2009, official unemployment rates in Baltic countries equalled the highest in the EU after Spain, reaching 17.6 per cent in Latvia, and 14 per cent in Lithuania and Estonia according to Eurostat (2009a). Youth unemployment reached over 30 per cent in Latvia and Lithuania, and 28.5 per cent in Estonia (Eurostat 2009b). In all three Baltic countries, the situation in labour market was still deteriorating in the Spring of 2010 with unemployment continuing to rise.

As such, the Baltic have had the unwelcome distinction of suffering the economic effects of the crisis in the most acute form in the European Union, with their currencies, banking systems and economies verging on collapse (*The Economist*, 2009a). It should be noted, however, not all the Baltic countries were in an equally difficult situation, and that the measures taken to adjust their economies to the impacts of the crisis were to some extent different. Estonia, for example, had exercised more prudent expansion policies than its neighbours during the boom years, moderating the kind of 'over-heating' most drastically experienced in Latvia, and to a slightly lesser extent in Lithuania from the early 2000s onwards. Again, in contrast to neighbouring Latvia which had been forced to seek a 7.5-billion-Euro bailout from lenders led by the International Monetary Fund, Lithuania and Estonia attempted to resolve their budget deficits without reliance on external support which would have made their economic adjustment package subject to even more stringent policy measures.

Governmental responses to crisis in the Baltic States

Each of the three Baltic States, in part the authors of their own misfortunes, was now presented with a dilemma: how to construct a national policy response, being small nations in a context of a financial and economic storm that was global in scope and with a past pattern of economic expansion that had left them especially vulnerable. The lessons of economic interdependency were particularly unpalatable for these former Soviet republics which had experienced the dislocations of transition to the market, only now to discover that expectations of continued growth were misplaced. The 'hard landing' in the Baltics became all the harder as Swedish banks, through their local subsidiaries, having significantly overexposed themselves to potential defaults, now had a vested interest in securing early loan payments. These loans had

been mostly denominated in Euros or Swiss Francs (up to 90 per cent of the total), simultaneously having the effect of drying up the credit market for investments in the productive sector. Latvia had an overvalued currency from the start, thus providing one of the reasons its 'real economy' has remained undeveloped, especially when combined with high taxes on labour (income and benefits), an absence of tax on re-invested capital and grossly under-taxed property values. Currency devaluation as one potential response option of the Baltic governments posed a threat to the borrowers who had dominated significant loans in Euros and accordingly to the Swedish banking system. For this reason, the Swedish government, along with the International Monetary Fund and European lenders, undertook financial measures of support for Latvia, as the hardest hit economy. In the event of currency devaluation, the risks would have been significant in terms of bankruptcies and defaults, both personal and corporate, creating the worrisome prospect of a wider 'contagion', potentially affecting other banks like those of the UK and the Netherlands, which were already exposed because over-commitments in, for example, Iceland (*The Economist*, 2009b). As a result, the entire European financial system could potentially unravel. At the same time as the International Monetary Fund and associated lenders were imposing deep cuts in the spending budget of the Latvian government, the European Central Bank asserted the necessary discipline in order to forestall any potential assertion of parliamentary interference with the operations of national central banks, arising for example as a result of pressure from disgruntled populations (European Central Bank 2009).

With currency devaluation ruled out, the fiscal route was the preferred option of Baltic governments. Thus, in response to unfolding events, including the threat of 'excessive debt procedures' from the European Central bankers, the recently formed centre-right Lithuanian coalition government, proposed a series of draconian measures to address the budget deficit of 4.8 billion Litas (1.4 billion Euros) accounting for up 4.8 per cent of GDP. These included swinging financial cuts, general increases in Value Added Tax (VAT) on certain products up to six times, reductions in state pensions and other forms of social support and substantial wage reductions. In Estonia, the government approach was also primarily to keep a stable currency and bring the state budget back into balance by cutting spending and increasing revenues. The cuts included, for example, pay reductions in public services

(gross wages in public administration and defence sector were 16 per cent lower than year before in 4th quarter of 2009, with an average decrease of 6.5 per cent (Statistics Estonia 2010a). Reductions were also imposed in paid sickness days, a freezing of pillar II of pension payments, abolishing support for student loans, and cuts in agreed increases in unemployment insurance. Revenue increases were to be secured by a hike of 2 percentage points in VAT with just with two week notice period in the middle of summer 2009, as well as unemployment insurance tax increases, and some excise taxes. At the same time, a concerted attempt was made to promote business revival, with a plan to stimulate the export potential of Estonian companies.

In Latvia, where the depth of the crisis was the most severe, the government chose to pursue recessive policies, with consideration of the fundamental structural imbalances in the economy set to one side. First, major financial commitments were provided in order to support the somewhat dubious nationalisation of Parex Bank, jeopardising still further the government containment of the budget deficit, and making the limited available resources to stimulate business recovery even more scarce. Second, in agreement with the IMF, the Latvian government's main measures for dealing with the crisis were an increase in the rate of VAT from 18 per cent to 21 per cent; an increase in income tax from 23 per cent to 26 per cent; a reduction of the minimum level of tax exemption from 90.00 Lats (63.11 Euros) to 35.00 Lats (24.54 Euros); reduction in public sector wages of 20 per cent, including those of teachers, health personnel and fire fighters; the closing schools and hospitals; a reduction in the level of social benefit. Even the State Revenue Service, engaged in combating tax evasion and fraud, and the front-line agency in fiscal compliance and recovery was placed, at least temporarily, on a four day week.

In Estonia, the government policy in reaction to the crisis was to seek a balanced budget in order to guarantee stable currency and to pursue the goal of reaching membership of the Euro. This policy demanded major cuts of state budget and reductions in unemployment insurance. Such a strategy amounting to an 'internal' devaluation, eroding living standards and creating mass unemployment, was to a large degree replicated across the three Baltic States. Government policies thus resulted in radical changes in the labour market conditions, undermining many of the previous assumptions governing social dialogue between labour and capital. The question at

issue was how far it would be possible to sustain a national accord between capital and labour that would permit such sacrifices to be imposed, without disrupting basic social cohesion in society. This was an issue that was of particular concern in the Baltics, but was to have European-wide resonance as the crisis unfolded.

Social dialogue and trade unionism in the Baltic States

Trade unions have found it difficult to re-invent themselves in the post-socialist world (Ost 2009). This has been especially so in the Baltics. The precipitate overall decline in union membership during the transition period encouraged trade union leaderships to welcome any neo-corporatist structures that would promote their voice as representatives of working people. As such, social dialogue was intended to act as a mechanism to institutionalise incipient or emergent class conflicts. It was based on shared 'non-class' assumptions of 'social partnership' between labour and capital, and 'unity' in the common project of transition. The promotion of this largely consensual world-view was an acutely 'necessary' form of intervention, given the fraught social tensions created by the spiralling inequalities of post-communist society. In order to carry through the awkward business of transition, the collaboration of organised labour and capital in various forms of social dialogue was a useful emollient in maintaining social peace.

In the context of the former socialist countries, social dialogue had a particular significance. The International Labour Organization, the European Union, and other external agencies and foundations, concerned with the promotion of democratic transformation in Central and Eastern Europe, made it their mission to promote tripartite social dialogue between trade unions, employer organisations and governments, as a means of underpinning a smooth transition to the market (Casale 1999; Ost 2000; Woolfson and Beck 2002). The ILO developed new labour codes to replace outmoded Soviet ones, which in providing a partner role to reformed trade unions would provide legitimacy, as well as bolster new democratic rights, such as the right to strike. For the EU, social dialogue was thus seen as an integral part of contemporary European participatory democracy, and one eminently exportable to the new EU member states who had much to learn in this sphere (European Commission 2004). The European Commission continued to monitor progress in the development of national social dialogue in the candidate countries in its regular pre-accession

reports. Noting that progress was slow in this area, the Commission encouraged faltering attempts to create social dialogue ‘from below’, rather than simply imposed ‘from above’ (See for example European Commission 2000).

As a generalisation, it can be said however that bipartite ‘from below’, as against tripartite ‘from above’ social dialogue, has been weakly developed in all three Baltic countries in the post-communist period (Vatta 2001: 129-130). There has been a high degree of employer resistance to union organisation, especially at enterprise level and even very few sectoral trade union agreements exist. Here we look at the trade union side, but it is worth stating that the majority of smaller enterprises, major foreign multinationals and many of the larger companies in the Baltics play little or no part in the affairs of employers’ confederations. Likewise, the weakness of trade unions as representative organisations of working people is evident in all of the Baltic countries, a weakness that is matched by that of the employers’ organisations. Here the focus is on trade unions and the reasons for the situation. First, trade unions represent a very small fraction of employees, and the decline of union membership that started with transformation process has steadily continued. Second, the low levels of membership does not permit the servicing of a large union apparatus which could be effective in representing employees on the one hand, and enable competent social partner participation on wide array of policy and employment issues, on the other. Third, the fragmented structure of union representation, with confederations splintered between rival organisations, especially in Estonia and Lithuania, further depletes the already limited available organisational and financial resources. Such trade union strength as exists is often residual in nature, is mainly concentrated in the public sector, with most private sector employers remaining hostile to union representation in their workplaces, although some limited advances have been made in recent years, for example in unionising the supermarket sector in Lithuania. In the public sector, a few sections of the workforce have become better organised, for example, police officers. But these cases apart, the overall level of union density, as elsewhere in Eastern Europe, has continued to decline over the two decades since independence across the Baltic States. However, it is worth noting that reported data indicate trade union density in all other new member states exceeds that of the three Baltic countries which are also the lowest in the whole EU (Van Gyes et. al. 2007).

The major union confederation in Estonia is Estonian Trade Union Confederation (Eesti Ametiühingute Keskliit - EAKL). It comprises 19 branch unions. The other confederation is the Estonian Employees' Unions' Confederation (Teenistujate Ametiliitude Organisatsioon – TALO) comprising 9 branch unions. EAKL is the confederation, which is more active and its voice is more prominent in the policy making. In terms of claimed membership EAKL has 43,000 while TALO has 3,000, representing 7.7 per cent of employment in 2009. The Lithuanian Trade Union Confederation (LPSK) is the largest trade union organisation. Its membership is organised on a branch/sectoral basis and currently it has 26 affiliated branch trade unions (approximate membership of 120 thousand persons). A second confederation, LPS “Solidarumas” unites basic trade union organisations at enterprise level grouped in county, city/town and regional territorial bodies and federations (currently having 24 affiliated territorial unions and 12 federations). A Christian based trade union confederation, the Lithuanian Labour Federation, (LDF), also exists with some limited enterprise agreements. LPSK claims to have 80,000 members, while LDF has 20,000 and LPS “Solidarumas” no more than 8,000. In total, therefore, there are three separate trade union confederations representing 7.6 per cent of employed people in 2009. In Latvia, by contrast to the other Baltic States, a single unified confederation, the Latvian Confederation of Trade Unions (LBAS) re-emerged in the post-Soviet era, managing to retain a higher level of membership in consequence, although it too has suffered sharp declines in membership in recent years. Today, LBAS claims to represent 134,000 members, around 14 per cent of the employed in 4th quarter of 2009 of 932.6 thousand. It has collective agreements in a number of industries, especially in the public sector where the education trade unions have been the strongest organised section of the labour force.

Given the relative absence of effective bipartite social dialogue, the question of the ‘compensatory’ role of state-sponsored tripartism in the ‘dialogue deficit’ emerges. Tripartite social dialogue has been co-ordinated by governments which have acted as the prime movers in setting national agendas (Mailand and Due 2004: 184). However, even though tripartite social dialogue between the key parties has been present in all three Baltic countries, it has often been no more than an empty shell with little substantive content (Jensen 2003). For example, in Estonia the tripartite socio-economic council on state level never achieved real influence in directing policies, or

in discussing their detailed content, and in recent years has had no meetings at all. Despite these difficulties, there had been some progress in developing social dialogue at national level. In Estonia, there was agreement on the general principle of consultations over social and labour regulations with social partners before major changes were to be introduced. Regular yearly negotiations were held on minimum wages and, from time-to-time, agreements on other issues were concluded. In the first half of 2008, the Estonian government, employers and employees reached agreement on the new labour law. The old law, created in the beginning of nineties, was seen as outdated. These tripartite discussions were heated, however compromises were made and a consensus was reached as to the way forward in a new labour law that carried with it the idea of some form of 'flexicurity'. The resultant compromise, from one side, included relaxing the notification periods and reducing redundancy payments, while increases of unemployment insurance payments, as well as wider eligibility for unemployment insurance, were agreed on the other. However, this compromise was reached before the crisis emerged and as events unfolded, was to prove a double-edged sword for the trade unions.

Baltic trade union demands in response to crisis measures

Faced with the tsunami of the crisis which struck the Baltics with full force in the latter half of 2008, the traditional tripartite consultative processes were simply swept aside as likely to impose 'unacceptable delays'. In Lithuania, anti-crisis measures of the new government were hastily devised and unilaterally pushed through in day and night sessions during December of 2008, in order to be in place before the date of the new taxation year of 1 January 2009, to be implemented over the succeeding months. The trade unions had, over a period of three previous months, repeatedly requested the continuation of the social dialogue established with the previous administrations. Their successive letters and entreaties over proposed fiscal measures had received no response. For Lithuanian trade unions, this absence of dialogue, the non-recognition of the legitimacy of their voice in this time of national crisis, became unacceptable and a direct threat to maintaining their credibility as a representational channel for organised employees. For almost the first time in the post-independence period, the notoriously fractious Lithuanian trade union confederations publicly united around a common set of demands and called for a popular demonstration in the form of a warning strike in late January 2009. The protest demonstration in Vilnius on 16

January 2009 took place one week after a similar demonstration in Latvia in which the trade unions had also participated. This too had ended in social disorder and riot – the first such occurrences of social unrest in the new EU member states since the onset of the crisis and a major surprise to the governing elites.

In response to government austerity measures, the trade unions in each Baltic State attempted to formulate a coherent set of alternative policy responses. Their demands were a clear reflection of the problems facing working people as a result of the onset of the crisis. Predictably, such demands were of a defensive rather than ‘revolutionary’ nature, designed to mitigate the impacts of the crisis. These were precisely the kinds of issues that the trade unions had come to expect to be consulted on as part of routine discussions within the framework of the established processes of ‘social dialogue’. The demands of the Lithuanian trade unions listed below included: a guarantee of social benefits for the unemployed; protection of low and middle earners from pay for health and education services; reduction of social inequalities through progressive taxes; the introduction a property tax; indexation system of minimum wages and social guarantees; guarantees for social benefits and pensions, and the halting of transfer of funds to private insurance from the state social insurance fund; an obligation on employers to provide authorities with specific reasons for redundancies and imposed salary cuts; an end to liberalisation of labour relations, and to stronger state control of breaches of labour law; government obligations towards state employees salaries to be maintained; energy pricing to be transparent in view of impending increases; reduction of VAT to previous levels on key goods and services; an end to privatisation of strategic national resources; introduction of measures to protect families from eviction for credit defaults; *all social and economic questions to be discussed on the Tripartite Council* (emphasis added).

Trade unions in Estonia, as in Lithuania, did not endorse government policy responses to the crisis. The government abrogated the tripartite agreement on the new labour law reached in 2008 as simply not feasible anymore. Promises to widen the eligibility criteria and levels of unemployment insurance payments were abandoned. This step, taken unilaterally, simply overrode the social dialogue process. In so doing, the government breached the tripartite principles in place since 2003, requiring that all

policies in the field of employment are subject to consultation with the various confederations of social partners. In response, trade union efforts were targeted towards influencing the government to withdraw proposed reductions of unemployment insurance and to consultation with the social partners before pursuing further changes. First, the unions demanded that the government postpone enactment of the new labour law until a more stable economic environment emerged, since the concessions granted on redundancy provisions now became a hostage to current ill-fortunes. Thereafter, the unions held bipartite negotiations with the Employers' Confederation, but no agreement was reached on a joint approach. Their suggestions, like their counterparts elsewhere in Europe, were mainly concentrated on increasing state revenues and enhancing the purchasing power of population as a way out of the crisis (EAKL 18.02.2009). Their key demands were that all future changes concerning social protection should be made in tripartite dialogue (EAKL 16.02.2009). The specific trade unions demands listed below included: an increase in basic tax-free exemption to equalise levels with the minimum wage (from current 143 EUR to 278 EUR per month); extension of tax obligations to dividends; a new unemployment insurance scheme that would pay unemployment insurance instead of wages, in cases where a company faced severe economic hardship; the creation of green jobs and of personal services needed by an ageing population; postponement of the enactment of the previously agreed employment contract law to 2011, instead of July 2009; not increase in employees' unemployment insurance tax; stop decreases in financing for the health services, on the grounds that reductions in financing might lead to major exit of Estonian health care professionals and negative impacts the health of population.

As further crisis measures were enacted by government, preparations for protest actions including picket and strike action began. The strike, targeted against the government and therefore political in nature, was organised by four unions comprising 1800 employees from 15 companies on 16 June 2009. This action was also supported by Lithuanian unions in a display of cross-border solidarity with a picket in front of Estonian embassy in Vilnius. The Estonian trade unions demands in 2009 were ignored by the government, and by the spring 2010, the impetus for continuing tripartite social dialogue had largely evaporated. The trade unions

continued independently trying to influence decisions of government, and in the beginning of 2010 the transport sector unions launched a campaign to collect signatures against a planned increase in the pension age. Even so, the intrinsic weakness of Estonian trade unions meant that their voice could safely be disregarded.

In Latvia, the processes of social dialogue fared almost equally as badly. Trade unions found themselves shut out of governmental deliberations with the International Monetary Fund (*Baltic Course* 2009a). This was by no means the first time their voice had been ignored. In response to the perceived refusal of government to consult social partners as the economy began to show signs of instability and overheating, exacerbated by government complacency, in 2007-2008, the Free Trade Union Confederation of Latvia (LBAS) had organised a mass signature campaign that would have allowed early recall of parliament (European Foundation 2008). The subsequent national referendum took place 2 August 2008, but only 40 per cent voted in favour of the amendments, in the event below the majority threshold required to change the constitution. Nevertheless, in taking the lead role in the collection of 250,000 signatures, an incredible achievement in the Latvian context, the trade unions had gained unprecedented credibility as responsible civil society actors in a time of gathering crisis. Once again, trade union demands were dictated by severity of the new crisis. The position of LBAS was that ‘as a social partner’ it realized ‘that state budget cuts are necessary measures to receive the international loan’. In June 2009, drastic budget amendments were adopted by the Parliament to decrease budget deficit by 500 million Lats, with the prospect of further cuts of 500 million Lats to follow in 2010 and again in 2011. Under the banner of “For Latvia. Against Injustice”, demonstrations, this time entirely peaceful, were held in Riga and other major towns on 18 June to protest the governments measures (BASTUN 2009a).

The demands of the trade unions were inter alia: not to announce state budget amendments; to maintain pensions, education, health care, culture, security; to halt unjustified increases of mandatory social insurance payments for workers; to revise budget amendments for 2009 without any cuts in salaries; to ensure complete social partners participation in discussions on the state budget for 2010; not to decrease minimum salaries; to ensure all people of Latvia in autumn/winter period 2009/2010 with basic services at home (heating, gas, electricity, water etc.) and to guarantee

stable tariffs; to elaborate a special Anti-Crisis Law together with social partners; *to make National Tri-partite Cooperation Council to become a real aid for the Government respecting its adopted decisions and opinions* (emphasis added).

LBAS also addressed its demands to the European Commission to provide Latvia with ‘urgent assistance’ and concluded by threatening to inform the President of the European Commission, José Manuel Barroso, and the General Secretary of the European Trade Union Confederation (ETUC), John Monks, of the ‘anti-constitutional actions’ of the government and parliament regarding ‘unjustified decrease of social guarantees and wages for a great number of people’, increasing thereby ‘social tension and distrust to(wards) institutions of state administration’. However, what was striking by contrast to their leading role in the 2007-2008 referendum campaign was the relative failure of the trade unions to focus the widespread popular discontent with government policies. Perhaps as recognition of their slightly greater residual strength (in comparison say to Estonia), by Spring of 2010, the leader of the governing coalition in the Latvian parliament was ready to re-incorporate the trade unions in discussions, calling for the immediate signing of a public agreement between the social partners with a 10-year duration, to be binding on successor governments (*Baltic Course* 2009b). It was an overture that the trade unions seemed pre-disposed to accept, after their enforced period of exclusion from public policy debate.

From crisis to compromise: the partial re-instatement of neo-corporatism

It is not possible to say whether the approaches favoured by trade unions would have led to different/better outcome and faster recovery from crisis than those taken by the various national governments. However, it is clear that the approaches chosen by governments differed markedly from the proposals of the trade unions, and that the changes introduced were not discussed with the social partners. Indeed, in at least Latvia and Lithuania, sections of the employers and small business in particular, felt equally as excluded from the process of social dialogue consultation, over measures such as VAT increases which were seen to undermine business interests. An inclusive social dialogue manifestly did not function as the Baltic governments elaborated their crisis response measures. For almost the first time in the post-independence period,

the Baltic trade union confederations were faced with the reality of their disposability, by the summary rejection of their 'voice' in the ongoing crisis.

As the crisis has unfolded sporadic, but increasingly muted social protests, led by organised workers, mainly in the public sector, or by particular hard-hit groups such as pensioners, students and others, took place. These remained largely disconnected from each other, for example in Latvia, the trade unions did not link up with protests by local communities over hospital closures, by farmers over diesel fuel taxes increases, and by students against cuts in the education budget. Indeed, a broader popular social movement that would have forced changes in government policy failed to emerge in any of the Baltic States. At the same time, the authorities in Lithuania and Latvia took great care to heavily police all further demonstrations after the events of January 2009. In some cases, as in Lithuania, the law was applied either to prevent protest actions being held in the first place or to confine protests to out-of-the-way locales.

By the autumn and winter of 2009/2010, with the numbers of newly unemployed persons in the course of each week spiralling across the Baltics, the trade unions had largely lapsed into submission. Some figures perhaps convey the scale of the collapse of employment. In the third quarter of 2009, in comparison with the previous quarter of the year, the increase in unemployment amounted to a staggering 16.3 percentage points in Latvia, 10.7 percentage points in Estonia and 7.5 percentage points in Lithuania, compared with an average increase for the EU27 of 2 percentage points. Only Ireland and Spain matched these levels (Eurostat 2009c). Compared to the first quarter of 2008, when unemployment bottomed out in the EU, by the third quarter of 2009, unemployment had more than tripled in Estonia and Lithuania, and nearly tripled in Latvia (Eurostat 2010b). These figures would certainly have been higher, but for the accelerated 'second surge' of outwards migration (with over a third of those polled in Lithuania and Latvia expressing a desire to emigrate). The eventual totals might possibly surpass even those in the period which immediately followed EU accession in 2004.

In terms of the attendant social consequences, the European Commission noted that while all EU countries have been hit by the global crisis:

...in some countries situations of hardship are more widespread, and some populations are likely to be more severely affected by the economic downturn than others. In Slovakia, Hungary, Lithuania, Poland and Latvia, *more than one third of the population see their living conditions severely affected by a lack of resources* (European Commission 2009: 19 emphasis added).

Some indication of the growing extent of hardship was revealed in data on private consumption expenditures. Compared with the same quarter of the previous year, in the third quarter of 2009 Latvia registered a 27.9 per cent reduction in consumption expenditure, while for Lithuania the figure was 16.5 per cent, and for Estonia 15.7 per cent, again the worst performers in the EU by far (Eurostat 2009d). Those hardest hit were the unemployed. In Lithuania, for example, for unemployed persons, the maximum rate of unemployment benefit of 1,041Litas (301.5 Euros) per month is payable for first three months only, after which period, as a reducing proportion of the eligible benefits.

However, as a result of wage cuts, even those still in employment faced extreme difficulties. For the third quarter of 2009, the most dramatic annual decreases in the EU in nominal hourly labour costs, compared with the same quarter the previous year, were observed in Lithuania (-10.9 per cent), Estonia (-4.3 per cent), Latvia (-2.7 per cent), with the only other EU member state recording a decrease being the Netherlands (-0.8 per cent) (Eurostat 2009e). In Latvia, compared to the 4th quarter of 2008, monthly average gross wages and salaries in public sector diminished by 23.7 per cent during a twelve month period, of which in general government sector – by 28.4 per cent. In private sector gross wages reduced by 5.0 per cent (Latvijas Statistika 2010). Average gross monthly earnings in Lithuania, comparing 4th quarter 2009 against 4th quarter 2008, decreased in the whole economy by 8.7 per cent, in the public sector by 10.4 per cent, and in the private sector by 8 per cent. Among the largest decreases observed were those in construction wages (20.8 per cent) and public administration (18.1 per cent) (Statistics Lithuania 2010). In Estonia, 4th quarter 2009 average monthly gross wages were 6.5 per cent lower than for the same quarter the previous year (Statistics Estonia 2010b).

Economic downturn has therefore increased poverty risks at a mass level. The share of people in the end of 2009, who found that it is difficult to manage with the resources that they have had grown in Estonia to 60 per cent among the population of 15-74 year olds. A year before, only 40 per cent found that they have difficulties (Statistical Office of Estonia, press release 26.02.2010). Even the front page of the leading right-wing newspaper in Lithuania captioned a report on the ‘ghost of hunger’ (*Respublika* 2009). A World Bank report noted that the estimated number of people below the official poverty line of 350 Litas (101 Euros) per month in Lithuania could increase to 49 per cent of the total population (636,000) in 2009 (*Baltic Course* 2009c).

Faced with this growth of unemployment and deterioration of living standards, in Lithuania for example, the three trade union confederations endorsed a renewed social pact with government and employers, ostensibly offering to protect living standards in the crisis, but in fact endorsing wage reductions and benefit cuts (Nacionalinis susitarimas, 2009). In Latvia, the trade union in the education sector, the most powerful in LBAS, agreed to suspend further industrial protests in exchange for a promise to protect teachers’ jobs. By the year’s end the Latvian trade unions could do little more than mount a symbolic picket outside the parliament as the draft budget was being discussed with even more draconian cuts in train. In Estonia, however, trade unions remained firmly excluded as an irrelevancy in the elaboration of a national policy agenda.

Conclusion

The onset of the crisis in the Baltic States has had particularly negative consequences for existing structures of social dialogue. Yet, the future of European social dialogue is equally uncertain, having been tested and found wanting across a number of EU countries, some of which like Ireland, had previously promoted social partnership as the key to its economic success (Roche 2007). This is all the more worrisome given the impact on mass living standards, perhaps the most damaging aspect of the crisis from a trade union point of view and potentially at least, a situation that might have offered opportunities for trade union renewal.

From the point of view of governments, where trade unions were still capable of making their presence felt, as in Latvia and Lithuania, they could not be seen to simply disregard the previous tripartite set-ups, especially if they wanted the agreement of the trade unions to secure social peace in what would be a long-term economic downturn. The national agreement in Lithuania, for example, represented a revived semblance of neo-corporatism that also had certain advantages for the trade unions. It at least offered the appearance that they had some role in protecting workers from the draconian cuts imposed by the government. A similar compromise, reinstating neo-corporatist solutions, at least in part, appeared to be reached in Latvia, although not in Estonia. The desire by trade unions to seek renewed compromise was also recognition that social dialogue of some sort appeared to be the only avenue open to them. Under the auspices the Baltic Sea Trade Union Network (BASTUN), a permanent network of national trade union confederations, the Baltic unions continued to meet and discuss common strategy throughout 2009, continuing into 2010. The promotion of social dialogue was one of its cornerstones, as BASTUN put it: 'The trade union movement is willing to take responsibility for recovery measures if they can get something back' (BASTUN 2009b).

Regardless of the pace of global economic recovery, the likelihood is that the Baltic economies will not return to positive growth before at the earliest 2011, and possibly not before 2012 (European Commission, 2009: 86). The IMF *World Economic Outlook* for 2010 was less than encouraging about the prospects for recovery in the Baltic region:

Economies that faced the crisis with unsustainable domestic booms that had fueled excessively large current account deficits (Bulgaria, Latvia, Lithuania) and those with vulnerable private or public sector balance sheets (Hungary, Romania, Baltics) are expected to recover more slowly (IMF 2010: 55).

Immediately, and for the foreseeable future in terms of general living standards, unemployment is likely to remain high and wage rates depressed. Moreover, those still in employment will be increasingly 'unprotected', pressured to accept lower labour standards in terms of working conditions, and the imposition of undeclared 'envelope' wage payments in a potentially mushrooming 'shadow economy'. Avoidance of tax and social insurance contributions will further erode access to

welfare provisions and unemployment benefits, not to mention deplete fiscal resources.

Baltic representatives of organised labour, having failed to mobilise a sustained broader movement of opposition to government crisis-measures, now faced their own particular crisis of credibility at least matching that of capital. The partial reinstatement of tripartite neo-corporatist forms of social dialogue seemed unlikely to resolve the problem of representational credibility, even in the longer term. The most probable future prospect therefore, was the further erosion of the fabric of the post-communist social and political compact which had embraced the representatives of organised labour, albeit on terms dictated by capital, as active partners in a wider conversation about the agreed path of transition to the market.

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