

‘Illusory Corporatism “Mark 2” in the Baltic States

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Abstract

In their paper the authors² employ the notion of ‘illusory corporatism’ coined over a decade ago. In the Baltic states, despite introduction of neo-corporatist institutional arrangements, neo-liberal policies have prevailed, thus the term appears appropriate to describe the actual status of tripartite social dialogue in the area for many years. Following the onset of the global economic crisis, which deeply affected the Baltic region, neo-corporatist type arrangements seem to have been re-embraced by trade unions and received support of the state. However, this renewed interest in neo-corporatism is mostly a tactical move on the part of the state, aiming to facilitate social peace in the times of recession and the implementation of stern austerity measures, with trade unions largely failing to influence the shape of anti-crisis policies of governments. Thus this new chapter in the history of social dialogue in the Baltic states is labelled ‘illusory corporatism Mark 2’.

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Introduction

In a seminal analysis, David Ost has argued that in transition to the market economy, tripartite neo-corporatism in Eastern Europe, or what he termed ‘illusory corporatism’, simply provided a ‘facade’ behind which to generate ‘neo-liberal outcomes’ (2000: 504). Nowhere in the post-communist world have neo-liberal outcomes been pursued with greater determination than in the Baltic states of Estonia, Latvia and Lithuania, formerly Soviet republics and now full members of both NATO and the European Union (EU). Now, two decades after their initial embrace of the free market economy and their integration in the wider global economy, in the financial and economic crisis of 2008 onwards, ironically, it has been the Baltic states that have become most vulnerable to deep and protracted economic recession. This has posed a significant challenge to existing neo-corporatist arrangements. It is suggested here that after initial opposition, the trade unions in the Baltic region have increasingly come to accept a renewal of previous unsatisfactory ‘Mark 1’ neo-corporatist-type arrangements, in a re-embrace that might be termed for want of a better expression, ‘illusory corporatism Mark 2’.

This article analyses the intersection of global recession with the viability of social dialogue between labour and capital, in post-communist Baltic states. It examines the crisis in a region where its effects have been the most pronounced. The ‘shock’ of global economic and financial recession has demanded radical changes on the part of governments. We suggest a failure of trade unions to influence the course of governmental crisis response measures, despite the existence of neo-corporatist forms of social dialogue. The crisis has led the trade unions being summarily excluded in the first instance from elaboration of crisis-response measures adopted by governments in the region. Governments have succeeded in introducing fiscal crisis management policies that are dictated by neo-liberal market-based solutions, largely unopposed.

These radical austerity 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 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, in the wake of the crisis an unlikely short-term prospect for Latvia and Lithuania, although successful in the case of Estonia, would offer the prospect of providing attractive sites for future foreign direct investment, as well as insurance against potential capital outflows.

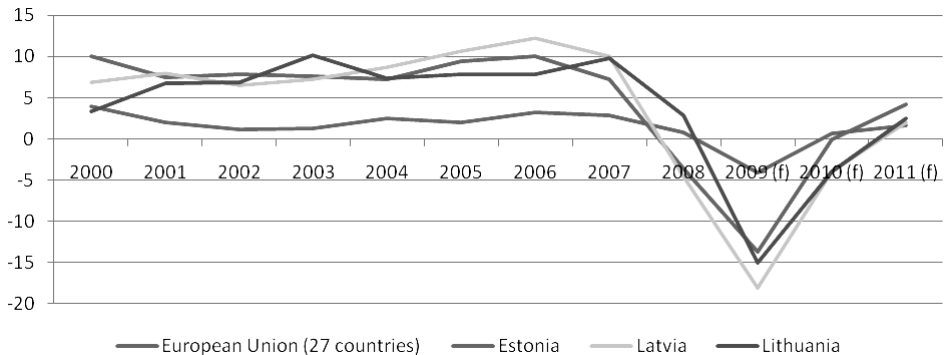
First, the economic contours of the crisis in the Baltic states are described, taking into account the differences between each country. Second, the various governmental crisis-response measures are outlined, and the key question is posed: how is it possible to sustain an accord between capital and labour, given the scale of sacrifices unilaterally imposed by government on the latter? Third, existing arrangements for social dialogue and the structure and density of trade union organisation in the post-communist era are reviewed. Fourth, the actual responses of organised labour to governmental austerity policies are discussed in terms of a historically renewed ‘Mark 2’ version of Ost’s original notion of ‘illusory corporatism’.

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 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.

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.



(f) – forecast.

Figure 1. Real GDP growth rate compared to previous year

Source: Eurostat [26.02.2010].

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 Litass (1.4 billion Euros) accounting for up to 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 a 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 the previous national accord between capital and labour that would permit such new sacrifices to be imposed. This was an issue that was of particular concern in the Baltics, but was to have European-wide resonance as the crisis unfolded.

Tripartism, social dialogue and trade unionism

Trade union leaderships in the post-communist world of Eastern Europe have eagerly embraced neo-corporatist forms of engagement as a means of legitimizing their role as ‘social partners’ in national policymaking. In particular, it has provided an opportunity for post-communist trade unions to pursue their advocacy of a more welfarist and socially protective policy orientation as market forces have come to dominate. However, reflecting on the gains for trade unions over the first decade

of transition, a number of writers (Casale 1999, 2000; Cox and Mason 2000; Pollert 2000) have argued that the positive impacts of the tripartite form of social dialog in post-communist society have been minimal and that the emphasis by trade unions on national level tripartism may have provided something of a 'trap' for organized labour, inhibiting its organizational revival, especially in terms of workplace bargaining. The creation of such social pacts in which labour surrendered its independent bargaining leverage in return for mandated concessions at national level has invariably been on a less than equal basis. It had more often been a process led by government, at the behest of the employers or external financial agencies set the parameters for the ensuing social dialog. If, by the turn of the millennium, tripartism arguably had produced only mixed results in the West where trade unions have historically been stronger and engaged in continuous struggle (Siegel 2005; Brandl and Traxler 2005), it had done so even less in the East (Fenger 2006) where trade unions were burdened by the legacy of their previous role in the communist system. Now, another decade on, and the global economic and financial crisis has posed a new (some might even say 'acid') test for tripartite concertation. In the context of this new crisis, examining the response of organized labour in the East and the fate of social dialogue in post-communist societies is instructive as to the limits of tripartite concertation. In this context, David Ost's seminal contribution on 'illusory corporatism' merits re-visiting (Ost 2000).

It is no secret that post-communist trade unions have found it difficult to re-invent themselves in the altered world of free market Eastern Europe (Ost 2009). The precipitate overall decline in union membership during the transition period encouraged trade union leaderships to welcome any neo-corporatist structures of consultation with government and employers that would promote their voice as representatives of working people. As such, social dialogue has acted as a mechanism to institutionalise incipient or emergent class conflicts. It has been framed within 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 has been 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 tripartite collaboration was a useful emollient in maintaining social peace. Thus, so-called tripartite 'concertation' between labour, capital and government in Eastern Europe has, until recently, provided one of the key mechanisms for resolving key social tensions created by the dismantling of the socialist system.

For the European Union, 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 post-communist 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).

In all three Baltic countries in the post-communist period bipartite dialogue ‘from below’ (loosely what might be termed as collective bargaining), as against tripartite consultation on a limited range of issues ‘from above’, has been the exception rather than the norm (Vatta 2001: 129–130). There has been a high degree of employer resistance to union organisation especially at enterprise level, and very few sectoral trade union agreements exist. 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 for a variety of reasons.

A number of factors have combined to ensure the continuing weakness of trade unions in their role as ‘social partners’ in the neo-liberal Baltic countries. 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, low levels of membership have not permitted 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, has further depleted the already limited available organisational and financial resources. Such trade union strength as has existed is often residual in nature, 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, for example in unionising the supermarket sector in Lithuania. In the public sector, a few sections of the workforce have also become better organised, for example, police officers. Reported data indicate however that trade union density in all other new EU member states exceeds that of the three Baltic countries, which are distinguished by having the lowest trade union membership levels in the whole

EU27 (Van Gyes et. al. 2007). A brief description of the trade union organisation in each Baltic country follows.

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, tripartite social dialogue as co-ordinated by governments has acted as the prime mover 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 and unable to compensate for the ongoing ‘dialogue deficit’ at the level of the enterprise and workplace (Jensen 2003).

Baltic trade unions and the crisis

Faced with the *tsunami* of the crisis which struck the Baltic countries 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 which included revisions to the labour code to enable employers to dismiss workers more easily, and increased levels of salary and value added taxation, 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. 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).

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. 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 on a new labour law that carried with it the idea of some form of 'flexicurity'. The resultant compromise 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. However, this compromise was reached before the economic and financial crisis emerged and as events unfolded, was to prove a double-edged sword for the trade unions.

Now, trade unions in Estonia, as in Lithuania, opposed government austerity policy responses to the crisis. Here the government abrogated the tripartite agreement on the new labour law reached in 2008. Promises to widen the eligibility criteria and levels of unemployment insurance payments were simply 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 renew 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-fortune. Thereafter, the unions held bipartite negotiations with the Employers’ Confederation, but without agreement being reached on a joint approach. The trade union confederation (EAKL) argued, like their counterparts elsewhere in Europe, that government should concentrate 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). 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; no increase in employees’ unemployment insurance tax; an end to 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 as well as 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. Predictably, the Estonian trade unions demands were ignored by government. The trade unions continued their actions however, 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 by government.

In Latvia, the uncertain processes of social dialogue took a somewhat different turn. 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 in 2007–2008, the Free Trade Union Confederation of Latvia (LBAS) had organised a mass signature campaign to amend the constitution 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, 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. As the crisis renewed in the latter part of 2008, once again, trade union demands were for consultation and dialogue. 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, ‘For Latvia. Against Injustice’, demonstrations, this time entirely peaceful, were held in Riga and other major towns on 18 June to protest the government’s measures (BASTUN 2009a).

The demands of the trade union confederation 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 restoring 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 received 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 the European Commission with a plea 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 period of enforced exclusion.

From crisis to compromise: the 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 crisis measures 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 processes of social dialogue, particularly 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 austerity programmes. The Baltic trade union confederations were faced with the reality of their disposability, by the summary exclusion 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 over hospital closures by local communities, with farmers over diesel fuel taxes increases, and with 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 authorities fearing renewed unrest either prevented protest actions being held in the first place

or confined protests to out-of-the-way locales, while the national police force itself became increasingly militarized and centralized.

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.

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 1,041 Litas (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, 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 championed social partnership as a key ingredient in 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 organised activity, 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 or at best a partial and slow recovery. The national agreement in Lithuania, for example, represented a revived semblance of neo-corporatism, a kind of ‘illusory corporatism Mark 2’, to reposition historically Ost’s original concept. This 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, re-instating neo-corporatist solutions, appeared to be reached in Latvia, although not in Estonia where the abject weakness of the trade unions made such cosmetic arrangements unnecessary. The desire by Baltic trade unions to seek renewed compromise was also recognition that some form of social dialogue, on whatever terms, 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 union confederations continued to meet and discuss common strategy to *promote* social dialogue throughout 2009 and 2010. As BASTUN put it: ‘The trade union movement is *willing to take responsibility for recovery* measures if they can get something back’ (BASTUN 2009b) (emphasis added).

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 fuelled 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.

Social dialogue was probably never necessary to the implementation of the neo-liberal project in the Baltic context. Its latter day revival is therefore doubly ironic. Having failed previously to provide a credible voice for organized labour in the good times, and it promises to do so even less in the hard times. Baltic representatives of organised labour were unable to mobilise a sustained broader movement of opposition to government-imposed crisis measures, and now face their own particular crisis of credibility. Latterly, the partial re-instatement of an ‘illusory corporatism Mark 2’, as a tactical response to the economic crisis, was an attempt at insurance against any unwelcome restiveness on the part of organised labour. This new iteration of ‘Mark 2’ ‘illusory corporatism’ seems unlikely to resolve, and indeed may serve to intensify the problem of representational credibility, and the necessary creation of genuine workplace bargaining facing post-communist trade unionism in the next ‘post-recession’ period. In that sense, it’s ‘Mark 1’ predecessor from earlier uncertain times has set an unfortunate precedent.

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