

Social Pacts in Slovenia: Accommodation to the EMU Regime and the Post-euro Development

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Abstract

The article follows the history of social pacts in Slovenia over almost a quarter of century. In the course of the social pacting at the national level, a series of pivotal points can be identified, each marking a significant change in the nature and functions of the pacts concluded, and structuring the development of social dialogue: from the juncture period (1988–1992), through stabilisation and economic recovery (1992–1996), and accommodation to the EU and EMU regime (1996–2004) to the EU accession and preparation to entering the euro-zone (1996–2004). Special attention is devoted to the most recent phase (from 2007 on) – so-called post-euro period – and the impact of the global economic crisis on the social dialogue. It is argued that the crisis has arguably further weakened the once effective, but slowly deteriorating over the years, Slovenian neo-corporatist system of industrial relations.

Introduction

In Slovenia social pacts started to occur when the most dramatic transformational phase – the juncture period (1988–1992) was concluded. Occurrence of the early

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chain of three annual pacts basically overlapped with first signs of the economic recovery and growth from the mid-1990s. These pacts were relatively narrowly focused on the restrictive income policies determination as well as formation of their implementation mechanisms – the centralised collective bargaining system. The most important side result of these pacts was institutionalization of the tripartite macro concertation process – establishment of the Economic and Social Council (ESC) as a central institution of the systematic interactions among the key actors of the public policies formation.

The period of explicit accommodation to the EU and EMU regime (1996–2007) was marked with relatively effective narrow agreements on income policies and adoption of a moderate pension system reform. At the end of that period – a year before Slovenia became a full member of the EU, social partners signed a wide social pact for 2003–2007. This one covered the three concluding years that preceded Slovenia's accession to the euro zone.

The post-euro period is just at its beginning in Slovenia. In 2007, after the euro's adoption, a new social pact for 2007–2009 was concluded. Similarly to the previous pacts this one also deals with restrictive income policies and the inflation issue. In addition to that it also strongly explicitly accentuates social partners' consensus concerning public expenses' moderation i.e. indirect labour cost reduction as a mode which would improve the country's competitiveness on the international markets.

After expire of that pact, which overlapped with the height of the crisis, it seems that the new pact formation is not a high priority of the actual Slovenian government. According to the established tradition, it is a quite surprising result. All Slovenian governments used to support social pacting. Especially centre left governments and parties used to play significant role in the social pacts formation. The actual Slovenian government, which is centre-left oriented, denies this tradition. It obviously found that social pacting is not instrumental any more.

On the next pages I will try to outline the main features of the pacts from these different periods. Then I will briefly describe the main changes that have occurred since the accession to the EU and the euro zone. I will try to identify the main drivers of the recent (post-euro) development where social pacting has been supplemented with the increasingly unilateral government's policies formation.

Before that I will resume basic characteristic of the first, juncture period, when – in spite of the pacts absence, some major structural conditions were formed enabling the later pacts formation and their quite impressive effectiveness in Slovenia.

1. Juncture 1988–1992: the actors' formation

During the 1980's Yugoslavia was faced with escalating political and economic crisis. Within this multi-ethnic society the traditional cleavages within the political elite between market reformers and their opponents were systematically combined with mutually exclusive conceptions concerning (de)centralisation of the federation. In the rapidly changing international context marked by the 'real socialism' disintegration, these internal cleavages and differences started to convert into inter-ethnic conflicts and disintegration of the federation. These tensions culminated at the beginning of the 1990's into the final economic and political confrontation when civil war has broken out.

In these circumstances general consensus concerning independence and the national state formation was reached swiftly within the Slovenian society. It was a sort of a basic, major social contract which was confirmed at national referenda from 1990 where 86 per cent of voters supported the formation of the independent national state.

Economic conditions: the transformational depression. Slovenia entered the process of the internal political pluralisation and the national state and national economy formation as a most advanced part of the former Yugoslav federation. Its robust economic structure consisted from strong, technologically relatively advanced export sector, which was traditionally oriented to the German and other western markets, and massive, more traditional labour intensive sector which was primarily focused to the less competitive domestic (Yugoslav) and former eastern ('socialist') markets.

Disintegration of the federation implied disintegration of the internal Yugoslav market and rapid escalation of potentially devastating 'transformational depression'. From the end of the 1980's, when negative annual GDP rates occurred for the first time – in 1991 and 1992 the rates were – 8.9 and – 5.5 percent, depression escalated until the 1992 when it reached the lowest point. At the end of the 1980's annual inflation rate grew rapidly reaching level of few thousand percent before the introduction of the new Slovenian currency. After that, in year 1992 when depression reached the bottom, inflation was radically lowered to 200 per cent (Silva-Jauregui 2004: 119).

Vanishing Yugoslav market caused enormous problems within the majority of labour intensive, traditional Fordist companies and, as it triggered the suppliers' chain disintegration, it also caused the serious troubles in more advanced export oriented companies. As the survival of the export sector was the basic condition of the new national state survival, the export sector performance and re-orientation of

the economy to the western markets became priority of the public policies in Slovenia. Accordingly, the export sector influence on the policies formation grew rapidly at that time in Slovenia.

In sectors and regions where concentration of the traditional, labour intensive industries was highest social tensions started to escalate dramatically. Rapid downsizings in these sectors implied fast unemployment growth. Within a few years the starting, almost insignificant unemployment level expanded to 9 per cent (ILO standard).

In spite of the fact that this unemployment rate was quite moderate when compared to the rates which occurred in some other contemporary 'post-communist' countries, its fast growth to the above mentioned level (which later has never been reached again in Slovenia) additionally fuelled already strong social discontent. When the depression started to reach the bottom the discontent started to approach critically high level.

In spite of all these quite dramatic problems, the new national state at that time, as well as later during the accession process, did not have any serious problems concerning budget deficit and public debt. During the juncture period general government budget was balanced and since than budget deficit has been within the 3 per cent of GDP; public debt was at the level of approximately 20 per cent of GDP and during 1990's it never surpassed 30 per cent of GDP.

Transformation of the political system: balance of power between 'old' and 'new' political parties. At the beginning of the juncture period, in late 1980's, two main political camps were formed in Slovenia: the camp of 'old', more left and left-centre oriented parties, and the camp of 'new', prevalently conservative, right and right-centre oriented parties.

The first general elections from 1990 revealed that the electoral body was relatively equally divided between these two blocks. Under this condition and within the proportional electoral system none of the camps was able to reach stabile parliamentary majority. Because of that during the last 15–20 years the Slovenian politics was marked by the more or less wide coalition formation which combined parties from both camps. Naturally, governments that have been derived from these coalitions were highly un-stable, fragile by rule.

On the first general elections from 1990 right centre coalition Demos won. It was coalition of 'new' right wing and right centre parties mutually connected by anti-communist stance and the national independence program. After the ten days war from June 1991 and the formation of the main national state and economy

mechanisms, Demos disintegrated at the end of the 1991, being replaced by the technical government in 1992.

Social partners' formation. During the system's change, in the years before and immediately after the first elections, rapid trade unions' political pluralisation and fragmentation started. The 'old' reformed Free trade union (ZSSS) used to be connected with the parties from the 'old' camp, and the 'new' trade union Independence (KNSS) was tightly connected to the 'new' conservative camp. Because of these connections to the competing ideological and political camps, the political and ideological cleavages within the trade union scene were extremely strong at the end of the 1980's and at the beginning of the 1990's (Stanojevic 2005).

At that time the trade union density rate was 60 per cent. Massive trade unions' membership, being combined by growing social discontent and fierce inter union competition, significantly influenced contemporary public opinion, occasionally destabilising even the general political scene and relations among main political parties. These unstable relations decisively changed in spring 1992, when the 'old' reformed trade union in an open conflict with government, which wanted to freeze wages, manifested impressive mobilising power. From that point this union (ZSSS) established as undoubtedly strongest trade union confederation in Slovenia. It still covers majority trade-unionised workforce in Slovenia and is still, as it used to be in that early period, strongly anchored in the key sectors of the Slovenian manufacturing industry (Stanojevic 2005).

During the same period The Chamber of Commerce had already existed as influential employers' organisation. It was already active as a relatively autonomous organisation within the former 'market socialism' inheriting the infrastructure as well as the experience concerning the industries' interest articulation from that period. At the beginning of the 1990's the Chamber was strongly centralised organisation based on the obligatory membership. It incorporated 26 sector associations among which the large export companies from metal and chemical/pharmaceutics sectors had the decisive, prevalent influence. Along to these most influential sectors and companies, associations for construction, retail and wholesale trade also had significant influence on the Chamber's policies.

In the context of the above described transformational depression and corresponding problems which companies were faced with at that time, the Chamber primarily articulated the export sector interests. It actively participated in the aforementioned struggle for the export sector survival. Accordingly, it strongly supported the public policies formation which suited to the stabilisation and to the development of the most advanced and largest export companies that

already had developed connections with western markets. These companies were not only vitally interested in policies formation that would lower inflation and create export friendly exchange rates, but also were strongly interested in labour market stabilisation which would lower uncertainty arising from job insecurity and corresponding workers discontent. Because of that the Chamber actively supported the collective bargaining system formation which, thanks to the Chambers structure, swiftly adopted a highly centralised pattern later being confirmed as mechanism of coordination which enabled institutionalisation of conflicts and relatively efficient labour market regulation. During the same period the Chamber did not oppose to the contemporary massive usage of different sorts of radical social policies measures – solving the redundancies by relatively generous unemployment benefits and by the early retirement schemes.

At the end of the 1992 the most turbulent period of the Slovenian transition was about to be concluded.

In the late 1992 the Law on privatisation, which strongly accentuated internal buyouts, was adopted. Some five years later this privatisation induced formation of a state-managerial capitalism with workers as relevant co-owners in numerous labour intensive companies. On the whole, the privatisation confirmed and stabilised the endogenous actors' role within the early, still unstable industrial relations system. It implied higher job security for workers stabilising strength and influence of all Slovenian trade unions (Stanojevic 2003).

Immediately after the adoption of the Law on privatisation, in the late 1992, the second general elections took place. This time, after the disintegration of the Demos coalition and at the end of the year when depression reached the bottom and the social discontent highest levels, the 'old', left-centre and left of centre camp won. Relative majority (almost one quarter of votes) was reached by LDS – successor of the former 'systemic opposition' (former youth organisation), which formed wide coalition consisting from all main parties from both camps. The new government entered the mandate with favourable parliamentary majority.

Since elections from 1992 a relative advantage of the left-centre 'old' camp was established being maintained for more than a decade, until the 2004 when the new major political turn occurred. It could be that these political constellations, implying formation of the governments traditionally opened to the employers' interests and relatively sensitive for the trade union demands, additionally stimulated the pacts formation and theirs relative efficiency/success during the accession process in Slovenia.

2. Stabilisation and beginning of the economic recovery: early chain of social pacts

First social pacts occurred in Slovenia in the mid-1990's when the most turbulent phases of the transformational depression was over. From then on – when GDP level approached to those from the second half of the 1980's, social pacts and narrow agreements on income policies have been relatively systematically concluded in Slovenia. The central topic of all these pacts and agreements has been **the income policy**. Within the wider pacts this central issue has been combined with other policies' fields, mostly with labour market issues and social protections' arrangements.

At the beginning of the stabilisation period from mid-1990's, marked by the first signs of the economic recovery, the 30 per cent high inflation was still a serious problem. Unemployment rate was 9 per cent.

The new left-centre coalition government was – similarly to the first right-centre Demos government, highly unstable. Because of pay increase in public sector, the tensions between the 'economic' and 'social' wing within government occurred already during the first year of the mandate (1992–1996). Soon after that, at the beginning of the 1994, the government faced the first serious crisis when was left by the new right-centre SDS; in late 1995 the 'old' left-centre ZSLD (today SD) also went away.

First social pacts occurred in that environment. They were focused on the key macroeconomic and social problems which marked this period – the high inflation and increasing unemployment rate. The main rationale of the pacts was consensus concerning measures and their implementation which should help to solve these problems, but important intervening variables were also legitimising needs of the government in general as well as of its coalition partners involved in above mentioned internal tensions and conflicts¹. The pacts conclusion implied wider public support which could not be ignored especially (a year or so) before elections, and in addition to that they significantly eased the tensions within the government.

¹ In this manner the conclusion of the first pact (from the early chain) significantly overlapped with the outburst of the first among aforementioned crisis within the left-centre government.

Social pacts 1994–1996

The first pact from the early chain of annual pacts was narrowly focused on the income policy parameters for year 1994. Basically, this pact resulted from the several year long negotiations and unsuccessful attempts to conclude wider social pact (which started already in 1991, during the early formative stage of the new state). Being unable to reach consensus about wider policy measures the partners finally limited themselves to the income issue and reached tripartite agreement on income policy in the early 1994 (Agreement on income policy 1994, Dogovor o politiki plač v gospodarstvu za leto 1994, Uradni list Republike Slovenije, št. 23, 1436–1437). The agreement defined parameters of the restrictive income policy for that year being immediately supplemented by the precisely bipartitely defined implementation mechanism (Annex to the general collective agreement for manufacturing sector for 1994, Tarifna priloga k splošni kolektivni pogodbi za gospodarstvo za leto 1994, *ibid.*: 1437–1439).

Only in one point the pact (i.e. agreement) includes content which does not deal with the measures focused on wage restraint for year 1994. It is article where the Economic and Social Council (ESC) and its main functions are defined. Because of this single article the first agreement is not only a narrow technical instrument, but is basically the starting social pact which marked the beginning of the social dialog's institutionalisation process in Slovenia.

The article concerning ESC formation clearly confirmed unions and employers strength at that time. The (fragile) government obviously had to respect these players at that time. Because of its own legitimisation needs it had to involve these strong actors into the policies formation processes.

Signing the agreement – the first social pact, trade unions accepted wage restraint i.e. anti-inflationary usage of the income policy, in exchange for the ESC establishment. They accepted to reduce wage growth demands in exchange for institution which enabled them regular, institutional approach to the (future) policies formations. Similarly strong interest for the ESC formation was manifested on the employers' side, especially within its new voluntary association which was established at that time.

Immediately after the first pact conclusion the ESC entered a serious crisis. The government's representatives, being satisfied with unions concessions, simply did not attend the ESC meetings. Accordingly, the government proceeded with former practice of the law proposals preparations without previous discussions on the ESC.

Parliament immediately reacted demanding the social partners' involvement into the laws formation (Kavčič 2004: 27). This intervention was followed by a wide public debate which supported the social partnership development in Slovenia. At the end of the 1994 the prime minister sent a letter to the social partners where he apologised for the procedural mistakes and supported the ESC role in the policies' process formation (Lukšič 1996: 198).

Social pact for 1995 was, when compared to the first pact, relatively extensive document which reiterated targets of the contemporary economic and social policies – 5 per cent high annual GDP growth rate, inflation no higher than 10 per cent and *'uniform mechanism of harmonisation for salaries of all employees, for pensions, other forms of personal income and interest rates and adjustment of these mechanism to the envisaged inflation rate'* (Social agreement for 1995: 1692). This pact was also strongly focused on further stabilisation of income policy's implementation mechanism. It defined collective agreements as a key instrument *'for the determining of base salaries'* and announced narrowing gap between *'the lowest and highest basic salary'* (1693).

The pact firstly defined minimum wage. It was fixed at the level of 40 per cent of the average gross salary.

Within the pact for 1995 the income policy is central part of a wider policy package. It is combined with different policies field binding for instance the Government and the Bank of Slovenia to take measures concerning interest rates and foreign currency policy which should be complementary to the restrictive income policies i.e. *'should facilitate the achievement of the envisaged inflation rate'*.

In the pact partners defined the absolute level of annual budget revenue and expenditure binding themselves to control targeted reduction of the public expenditure. Under the article dealing with social security/insurance issues some general viewpoints were listed, for instance, that social rights would be assured according to the feasibility, that social security was a basis of the market economy which (social security) must not hinder further development and that contributions for pensions must not burden wages and salaries in addition to the already reached level (1964).

A distinct chapter of the pact dealt with the *'stabilisation of the legal security in Slovenia'*. The government would assure the adoption of the measures and regulations which should improve the efficiency and ensured up-to-date work of the jurisdictional system.

Social pact from 1996 – the last one within the early annual pacts' chain was strongly marked by the forthcoming elections. In the late 1995, when the ZSLD (reformed communists) left the coalition, different unions from the public sector

started to escalate pressure on the government. The most militant among them was the union of the medical doctors FIDES. This union organised a large, three-week long strike achieving significant salary increases for doctors which then triggered a series of protests and crisis within the public sector.

It was the climate of the pre-election time when the government together with the employers prepared an analysis of the former pact implementation suggesting that the pay growth surpassed the agreed level in 1995. According to this finding they demanded that the new pact should be focused more than earlier pacts on the wage growth control mechanisms (Kavčič 2004: 31).

Trade unions opposed to the new agreement on income policy and argued for the enactment of minimum wage and collective agreements, accentuating also wider topics concerning social policies which already were included in the former pact. During the new pact's negotiations (at the beginning of May 1996) the major trade union confederation (ZSSS) announced preparation for a general warning strike action.

The pact was signed in the mid-1996, half year before the elections in the context of the described pressures and the government's 'retreats' under these pressures. Compared to the former pact, it was significantly more extensive (*Official Gazette of the Republic of Slovenia* 29: 2439–2443). Basically it repeated and extended numerous articles from the former pact defining (again) most precisely and most extensively the income policies measures. Social partners wrote that they agreed with the real wages growth which would be by 2 per cent lower than the GDP rate growth. They also determined a new gross level of the minimum wage.

In the social chapters of the pact trade unions insured position of the most vulnerable groups and also negotiated important frame/basis for the coming discussion concerning reforms of the key systemic laws – on pensions and new labour law.

The most visible change in the content of the new pact, when compared to the previous one, was strong accent on the accommodation to the EU standards. The pact was also supplemented by a relatively extensive document concerning employment policy (*Separat o zaposlovanju*).

Regulative capacity of the third pact was relatively weak. After its adoption, a few months before the elections, a vigorous conflict between employers and unions broke out. It was provoked by the employers' notice on general collective agreement in September 1996, when they proposed a new, but a more disadvantageous and unacceptable agreement for the unions. The unions started to organise public protests which culminated into the general warning strike in the second half of

the October 1996. In that big conflict the government supported trade unions. The cancelled agreement was restored; partners only agreed to trigger a new bargaining round concerning the new general agreement before the termination of that restored agreement.

3. Accommodation to the EU and EMU regime

In 1996 when Slovenia signed the European Association Agreement, the processes of explicit accommodation to the EU and EMU regime started. Towards the late 1990's they gradually escalated reaching peak in the concluding years of the accession process during the first half of this decade.

During this period the GDP growth on the average annual rate of 4 per cent continued. In 1996 Slovenia surpassed GDP level from late 1980's (Silva-Jauregui 2004: 118); in the same year inflation declined below 10 per cent remaining between 6 to 9 per cent since 1997. Unemployment rate started to approach 7 per cent since 1994, than escalated to the almost 8 per cent in 1998 and than gradually declined towards relatively low level of about 6 per cent.

At the third parliamentary elections from 1996 the LDS improved its previous result and formed a coalition government with one of the 'new' parties – the SLS (Slovenian peoples' party) and small pensioners' party. The coalition had a small minority of votes in the parliament.

Political and ideological cleavages and fierce competition between main trade union confederations, which marked juncture period, almost vanished in that period. The leading role of the largest ZSSS, which manifested exceptional mobilising capacity as well as the highest negotiating competencies among all unions, was definitely confirmed.

After three years of continuous work the ESC was accepted as institution where regular negotiations and consultations among partners have taken place. Basically it got a role of an unavoidable institution within the processes of formation and implementation of the public policies. Different chapters of the intended social pacts covering different policies' areas were regularly on its agenda. The oldest among the 'chapters' – the income policy area, was a permanent central topic familiar to the all actors. They started to connect it early – already within the second annual pact from 1995, to the other chapters. Unions normally conditioned the acceptance of the

restrictive income policies by the changes/accommodations of the other policies to their interests as they perceived them and employers systematically supported these policies trying simultaneously to limit the indirect, public expenses growth. Because of that social pacts negotiations have been difficult process consisting of numerous disagreements, postpones and failures.

Law on income policy (1997–1998) and agreement on income policy for 1999–2001

Beginning of the accession period was marked by this type of major failure. During the first year of the new government's mandate a new wide social pact was close to conclusion when employers rejected to sign it disagreeing with the proposed chapter on public expenses which they perceived as unacceptably high and correspondingly as a main threat to the economy's competitiveness. After that failure the government, strongly referring to the previous discussion on the income policy, unilaterally enacted parameters of the restrictive income policy for the next two years (1997 and 1998).

This law on income policy represented a sort of a turning point in the wage formation system in Slovenia. It significantly 'ease wage indexation' implying change in the wages growth rate, which since this point started to lag behind the productivity growth rates. The partners tacitly agreed with this more restrictive approach and since then explicitly supported it in series of agreements on income policies which were adopted as autonomous agreements and/or as parts of wider social pacts during the following decade.

In the pre-election year 1999 a new attempt to reach social pact was triggered but was unsuccessful again, this time because of the proposed pension reform. Trade unions conditioned acceptance of the new social pact by the 'softening' of the proposed pension reform. In this context a new narrow agreement on income policy was signed by all partners and then enacted for 1999–2001 period (Uradni list RS, št. 39/99).

Pension reform

During this period the ESC, in spite of the failures concerning wider social pacts formation, normally functioned reorienting primarily towards the main systemic laws – the law on pensions and the new labour law.

The debate on the pension system was extremely tense. The starting government's proposals caused massive public protests. In March 1998, a large rally with approximately 20,000 participants – the largest unions protest action at that time in Slovenia – against the proposed pension reform was organised and then repeated a year later. The concluding proposal which was significantly softened when compared to its first version was finally consensually accepted at the ESC in mid-1999 and then adopted in parliament.

The law basically modernised the public pension system and prevented radical privatisation of the pension funds. Stanovnik writes that this reform '*...has succeeded in stabilizing public pension expenditure as a percentage of GDP. Following the passage of the 1999 PDIA (Pension and Disability Insurance Act), the actual retirement age started to increase, and the ratio of the average old-age pension to the average wage started to decrease*' (2004: 326).

Conclusion of the accession process (2000–2004): Agreements on income policies and Social pact 2003–2005

At the fourth parliamentary elections from 2000 the LDS reached more than one third of votes and formed a new wide coalition with one party from the left (ZSLD, now Social Democrats) and one from the right (SLS) camp. Some small parties were also included. In spite of the strong integration and mobilisation induced by the final phase of the accession process this wide coalition also faced a major crisis before the elections 2004 when the SLS was excluded from it. At the end the government had small/marginal majority of seats in the parliament.

At the beginning of the new government's mandate the social partners adopted annex to the expiring agreement on income policy for 1999–2001 extending the agreement's validity to another year.

In late 2001 the partners finalised negotiations concerning the new labour law. A half year later it was adopted in parliament and then came into force at the

beginning of 2003. The new labour law was the second systemic law (the first was pension law) which resulted from the consensual decision making of the social partners. Compared to the pension law formation, when the unions organised mass protests, the new labour law was concerted without any major unions' pressure of that kind (Kavčič 2004: 50).

Negotiations concerning new social pact were triggered at the beginning of the mandate of this third left-centre coalition government. The first government's proposal accentuated importance of the continuation of the already reached Slovenian balanced economic and social development, especially during the final phase of the accession process (assuring the 'soft landing' into the EU). All partners supported the proposal on principal level, but simultaneously demanded, especially the employers' side, a more clearly defined limitation of the public expenses. Because of the discrepancies the partners used the pattern which was activated when they adopted the first pact. They simplified the issue and focused on the income policy. In June 2002 they signed agreement concerning this policy ensuring continuation of the previously (for one year already) extended agreement.

A year later, in April 2003, they reached a new social pact, this time for a three-year period. It was the first wider pact which covered longer period. It overlapped with the concluding phase of the Slovenia's accession to the EU and for the first time covered the next mandate, i.e. post-electoral period.

The new pact, which included a lot of new 'European' contents/issues, is organised into three main parts.

In the economic part it strongly accentuates EU context suggesting that the low inflation is a key condition of the integration process, especially concerning the EMU issue; Slovenian inclusion into the EMU regime is explained as a necessary condition for the realization of its basic developmental aim – socially balanced and sustainable development, which was unanimously approved by all social partners.

For the first time in the economic part of the pact the future tax reform was clearly announced.

Similarly to the earlier pacts the fourth one also defines a general frame for the pay determination. It determines that the growth of gross payments must lag behind the productivity by one per cent per year. The basic content of this (and all previous) social pact was a search for compromising solutions between the two extremes. The income policy could not be too restrictive because it would cause social dissatisfaction (and deflation), but simultaneously some restrictions were unavoidable as they enabled inflation lowering and also assured competitiveness of the Slovenian

economy on the international markets (Hribar Milič 2005; Lombar 2005; Dimovski 2005).

In the second part of the pact aims and measures concerning employment growth, social security, pensions and health insurance are defined in a quite precise/detailed manner. Similarly to the tax issue the pact defines starting points of the health insurance system reform.

Along with this basic content, the social partners also included some new issues in the fourth social pact. The pact, for instance, contains issues concerning equal opportunities, family and housing policies which have not been mentioned in the previous documents.

In the third part the issue of legal security is accentuated and elaborated significantly more than in the previous pacts.

4. Post EU development: the third phase of EMU and post-euro (neo) liberalisation

The country's 2004 entry to the EU was followed by a major re-arrangement of constellations in the Slovenian political scene. After 12 continuous years of the centre-left coalition governments, and just when Slovenia became a full EU member state, the centre-right parties won the elections; the relative winner was the new Slovenian Democratic Party (SDS). This was the first fundamental ideological and political change within the Slovenian political system after the introduction of the parliamentary democracy (Fink-Hafner in Krašovec 2004: 27).

This time all coalition partners that formed the new government were – with the exception of the small pensioners' party, from the new conservative party cluster. Similarly to former coalitions, the new government – after the starting unity, was also marked by the internal tensions and serious crisis manifested clearly in numerous resignations of ministers, from early resignation of the minister for (projected radical) reforms to the dismissal of the minister for work and family, and resignations of their colleagues in ministries for health and transport.

Soon after the election the new coalition government announced a package of radical neo-liberal reforms: a radical tax reform, further flexibilisation of the labour market, trade union marginalisation, welfare state privatisation and the conclusion of the privatisation process in those companies where the state still had

significant ownership shares. The reform package was basically formed under the former government but then sharpened by the new government's neo-liberal advisers from the Strategic and Economic Council. During the promotion of the package, proposal of a flat-tax rate became a central issue.

The trade unions immediately opposed the project. Their resistance was fiercest already in November 2005 when a mass rally against the announced reform was held. After this largest unions' public protest in the recent Slovenian history, support to the government significantly dropped causing immediately denouncement of the intended tax reform, crisis in the Ministry for reforms and postponement and/or more gradual implementation of the other planned reforms.

At that time managers were busy sorting out other priorities: having been signalled that the final stage of privatisation was about to open, they entered the race for ownership primacy in the rest of the un-privatised, as a rule best performing, Slovenian companies. A massive wave of managerial buy-outs followed. All of them were based on loans which generally burdened the companies themselves, i.e. the workers in these companies.

Rapid decline of the intermediary organisations

These changing priorities of all partners blocked the social dialogue. The dialogue was further hampered by a radical change to the status of the Chamber of Commerce and Industry in 2006 when its obligatory membership was abolished by law. Consequently, the Chamber turned to the affiliation by starting to accommodate its policies to the interests of (potential) members more vigorously than before. This re-orientation implied a radicalisation of the Chamber's standpoint and its transformation into a considerably tougher negotiating partner.

The political turn to the right, the announced reforms, conflicts and, finally, the new status of the Chamber of Commerce and Industry, overlapped with the beginning of a rapid trade unions' membership decline. Public opinion surveys (shown in Figure 1) reveal that in the second half of the last decade Slovenian trade unions have probably suffered the most dramatic membership loss in their recent history.

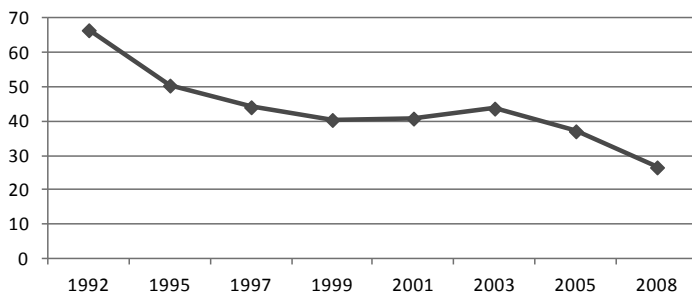


Figure 1. Trade union density rates in Slovenia (1991–2008)

Source: PORC.

The ‘classic’ trade union membership structure, which had stabilised in the mid-1990s, started to change significantly. Within a relatively short period of time (from the late 1990s to date) the share of members with an elementary and vocational education dropped from 70 to 40 percent. This mostly classical worker population is still slightly overrepresented in the trade unions’ structure, but for the first time it is now equalised with a group with a high school education; one-fifth of all members now has an education exceeding the high school level. This recent change in the trade unions’ education structure is only partially connected with actual changes to the employment structure of Slovenian society. The process has been significantly faster than that of the employment structure. This quite dramatic change can be attributed to the recent rapid de-unionisation taking place in the manufacturing industry. When combined with the relatively stability and even slight growth of unionisation in the public sector, it implied a significant change in the trade union membership structure as well as a steep decline in the general trade union density rate (see PORC, European Social Survey, February 2008).

It seems that Slovenian trade unions became victims of the very neo-corporatist system which they had helped to create. Although their micro scene was organisationally formally included in the wider arrangements, it basically had its own internal logic. Company unions created their own micro policies focused primarily on the formation of internal (strongly competitive oriented) coalitions. This capillary segment of trade unionism had its own logic and natural flow. It only worked within the membership environment, i.e. in terms of the membership logic (see Streeck and Kenworthy 2005: 451–452).

On an entirely different level, however, leaders of the trade union confederations focused on the influence environment (see *ibid.*: 451–452) where they were involved in the formation of macro (incomes) policies and the political exchange mentioned

above. What occurred was a classic inter-organisational ‘division of labour’ in the two segments, with each being characterised by a totally different logic. This difference induced internal tensions and then a cleavage between the levels – the classic (latent) jeopardy of all neo-corporatist trade unions. In the Slovenian case, it was inevitably dramatically sharpened by the combination of external as well as endogenous factors which I will try to outline later, in the concluding part of this article.

Social pact 2007–2009

In January 2007, after fulfilment of all Maastricht’s criteria, Slovenia entered the euro zone. During the entire accession period it was quite successful in terms of EMU criteria, especially concerning *its total debt and fiscal deficit, but inflation was a permanent problem* (Silva-Jauregui 2004:129). It was resolved literally in the ‘last moment’ thanks to the well planned and well implemented economic policies which were decisively supported by the consensually accepted restrictive income policies.

After the Slovenia’s inclusion into the euro zone the inflation started to grow again. It surpassed EMU criteria swiftly reaching the *highest* level within the zone during the recent period (2007–2008).

Combined with relatively long period of restrictive income policies this ‘renewed’ inflation growth started to affect workers as well as the middle class peoples’ life. Trade unions responded to this new situation by new demand concerning change within the formerly accepted restrictive collective bargaining’s parameters. They focused their policies on the less restrictive wages growth formation.

In the mid-2005 – before outburst of conflicts outlined above, a discussion concerning the new social pact was triggered, showing that the macro-economic regulative and legitimating function of social pacts was obviously crucial for the new right-centre government, too. The new pact was concluded in October 2007 (for period 2007–2009). It was in the year when Slovenia entered the euro zone and a year before the general elections.

Similarly to the former pacts which marked the accession process, the last one also covers all classic topics: restrictive income policy, labour market issues and social protection and reiterate all other topics from pact 2003–2005. New explicitly accentuated topics concerns technological development, competitiveness of the

economy, employee participation and the social responsibility of the private companies.

Hierarchy of the chapters reveals new priorities.

First chapters deal with the inflation issue and price policies, then the issue of public finance is covered. It is followed by routine supportive statements concerning social dialog and by the new topics on technological development and competitiveness. Second group of chapters cover labour market reform and income policy issues (primary distribution) and third part deals with social protection i.e. with all other issues concerning secondary distribution.

According to the inflation issue, which is obviously perceived by all partners as a serious problem, all signatories agreed that government should use restrictive approach towards those prices which are still under its control and that it also has to mitigate pressures induced by the growing oil prices. Employers and trade unions should support implementation of the agreed income policies (5–6).

In the chapter on public finance it is written that partners agreed with the reduction of the public expenditure (2% of GDP in period 2005–2008) and corresponding disburdening of the economy. They support stronger public financial support to the new priorities like (technological) research and development. They also agreed that part of the public services should be transferred to the private subjects – concessionaries.

Complementary to this planned gradual restrictions of the public expenditures, in the chapter on tax system partners agreed with further and faster competitive lowering of the tax burdens ‘respecting the agreed fiscal policy/frame and possibilities’ (11).

In chapter on labour market reform and employment the pact argues for changes which will enable more efficient responsiveness to the external factors and ‘...*better adaptability of the economy to the growing world markets’ pressures*’ (17). Partners agreed with the further labour market’s flexibilisation which will not jeopardize balance between flexibility and security. Government should prepare active employment policies’ measures, should influence/stimulate general activity rate and other still less developed forms of flexible work like part time job, work at home and job sharing (18). In addition to that the chapter on social security strongly accentuates activation principle. Individual person should be supported in its efforts to improve its own situation/position (40).

Income policy is evaluated as relevant element of the social dialog which ‘*after the inclusion into the EMU is still getting on importance*’ (20). Within the private sector the wage growth, which should refer to the productivity rate and inflation growth,

should be regulated by the sector collective agreements, with possible exceptions in the cases of the employers faced with exceptionally difficult circumstances and problems. Within the public sector, where payments are regulated by the public sector collective agreement and corresponding collective agreements for different parts of that sector, the pay growth will not surpass the wage growth in private sector. Minimum wage is kept at the level defined by law.

Within the health system partners support stable influence of all partners in the boards of health insurance institutions. They agree with development of the public health system where services should be performed by public as well as by private subjects – concessionaries.

Partners also ascertain that the pension reform from 2000 lowered the growth rate of the new pensioners having positive effects on the system's financial sustainability (43). The main conditions of the long term pension system's stability are economic growth, wage growth, growth of the employed persons covered by the pension insurance system and incentive tax, family and housing policies (43).

Recent development: non-consensual structural reforms?

In November 2007, two years after the large rally which thwarted right-centre government's grand neo-liberal project and only a month after the adoption of the new social pact (2007–2009), unions from private sector organised mass protest which clearly indicated that they decided to abandon consensus concerning wage restraint they had supported up to the end of the accommodation process to the EMU regime. Referring to the data which revealed systematic lowering of the wages' share within the GDP growth, they escalated pressures on employers since then, trying to soften the actual wage restraint regime. In spring 2008 they triggered general warning strike and soon after that they also hosted large European trade union rally conducting during the ECOFIN Council's meeting in Ljubljana, where a wide consensus of the national union confederations concerning the more critical stance towards the national competitive policies based on the systematic wage restraint was clearly confirmed. All these protests had a quite limited effect. Workers from the labour intensive sectors joined the warning general strike, but in the most important sectors response was weak. In some significant cases this weak workers response was combined i.e. 'supported' by the fast conclusion of the separate, single employers'

agreements strengthening traditionally strong company unionism tendencies within the most advanced export oriented companies. Then, tightly connected to these events, in April and May 2008, trade unions from the private sector proceeded to negotiate with employers trying to change tariff agreements, but have not been successful.

And, finally, similarly to the pre-election year 1996, in the pre-election year 2008 trade unions from the public sector started to escalate pressures on the government demanding salaries increases. After a few months long debate, combined by strikes preparations and inter-unions competition, the government relatively successfully neutralised the treating massive strike wave. It used the new pay system for public sector as a quite effective pacification instrument. In reality the agreed system produced some perceivable 'lump-sum' improvements for some categories of public sector's employees in September 2008, literally few weeks before the elections.

In spite of these types of improvements and the general economic boom, the centre-right government – because of its clearly expressed neo-liberal orientation and its decisive role in triggering the new wave of privatisation, was losing the public support. Accordingly, towards the end of 2008 the centre-left won the elections again. This time the relative winner was the Social Democratic Party (SD). Soon after taking office the new centre-left government found itself in the middle of an escalating crisis. In 2009 economic growth came to a halt and then took a downward trend. At the annual level GDP decreased by approximately 7 percent. The parameters that used to frame micro and macro negotiations and the terms of political exchanges had transformed significantly. With the decline of aggregate demand, inflation practically vanished while new problems – unemployment growth, an expanding budget deficit and public debt – came to the foreground. In view of these changes the room for possible political exchange narrowed significantly. Above all, the outlined quite intensive erosion of both of the main intermediary organisations took place.

It was mentioned earlier that already before the arrival of the crisis the former centre-right government had triggered a new wave of privatisation. Managers who had focused on buy-outs started to take out loans which they secured using shares they bought with these loans. Settling the related debts posed an additional burden on companies and, accordingly, additional pressure on the workers. Then the financial crisis caused a chain of crashes of these (privatising) financial arrangements. In the meantime, demand in foreign markets declined steeply, forcing companies to activate a series of additional restrictive measures.

In these circumstances the Slovenian manufacturing industry witnessed a sequence of spontaneous strikes in autumn 2009. The government immediately

responded with measures focused on financial compensation for shorter working time and temporarily redundant workers. This type of massive interventions induced a new, previously insignificant, problem load: budget deficit and corresponding public debt growth.

Under the pressure of mass worker dissatisfaction the government also found that the actual minimum wage level was inadequate and offered to trade unions a sort of framework for possible exchange where it pointed out acceptance of a minimum wage rise in exchange for employment regime flexibilisation and further pension system reforms.

On the other side, being faced with the radicalised internal pressures and a critical level of internal de-legitimisation, trade unions leaders immediately started to translate strong membership pressures into a demand for an **unconditional** minimum wage rise, expressing this persuasively at a mass public rally where, for the first time ever, speeches were delivered by workers and not trade union leaders.

A few months later a new law governing minimum wages was adopted. Owing to trade union pressure, the government temporarily ceased to condition the rise of minimum wages on systemic changes, yet employers, who strongly connected the minimum wages improvement with the regulatory changes, disagreed. Consequently, upon the adoption of the law on minimum wages they started to boycott the work of the Economic and Social Council. Later, dialogue proceeded in a somewhat fragmented manner, moving from one topic to another, being combined with escalating conflicts and widening room for the government's unilateral decision-making. Being framed by the European Commission's Recovery plan the government focused on the budget deficit restraint where, in combination with other more short term measures, a structural i.e. the new pension reform became a central issue.

5. Conclusion: Declining pact instrumentality in the post-euro context?

In the early 1990's the three key actors – interventionist state, influential (export sector's) employers and strong trade unions – trying to reduce uncertainties i.e. to protect own interests in the context of extremely intensive exogenous political and economic shock, decisively influenced formation of the early internal (national) regulative system in Slovenia. During the short, highly dense juncture period from the late 1980's and early 1990's, they established coordinative mechanisms similar to

the neo-corporatist regulations that occurred in some European national economies a few decades earlier (see Lehmann 1979; Wilensky 2002). This development was, when compared to the other 'post-communist' systems which mostly strongly gravitated towards more liberal market regulations, indeed strikingly atypical.

At the end of the juncture period, when the 'neo-corporative' system was structured, a new phase of the system's stabilization and growth began. It was marked by the two major (macro) problems: high inflation and threatening unemployment rate increase.

Social pacts from mid-1990s were focused on these major problems. In the core of policy mix defined by these pacts was the restrictive income policy. Results were good. During the three year period annual inflation rate was lowered from more than 30 per cent in 1994 to less than 10 per cent in 1996. In this period economic growth started and unemployment began to decline. Because of that it is possible to assert that the policy mix from that period, which was formed and implemented by the pacts, was basically effective.

Within the period of explicit accommodation to the EU in EMU regime a major political exchange that marked Slovenia's accession to the EU was realized. During the second left-centre government's mandate, which overlapped with the beginning of the accession process, trade unions firstly implicitly and then explicitly (signing the agreements) supported (government's) restrictive income policies. With this constructive stance they strengthened/consolidated their negotiation position within the established system. It was a sort of a more implicit exchange between unions and the government: the unions' acceptance of the restrictive wages policy continuation for government's moderation concerning its pension reform proposal. In addition to that unions conditioned their support to the new social pact – which government wanted to reach in the final stage of the accession process, by the demands concerning formation of the new pension system. Within these types of exchanges unions strongly influenced a relatively moderate and in middle-term sustainable pension's system formation.

After adoption of the pension reform the road to the new social pact was open. It was concluded in 2003 for three years period enabling reduction of internal uncertainties and safe conclusion of the Slovenia's accommodation process to the EU and EMU regime. Along to the continuity of the restrictive income policy it ensured support to the wide spectrum of economic and social policies which enabled 'soft landing' in the EU and then in the euro zone.

The last social pact (for 2007–2009 period) was adopted within essentially changed context primarily marked by the new post-EU and post euro developments and the major electoral turn to the right. This recent contextual changes significantly influenced the last pact's formation as well as its content. The new aforementioned priorities defined by this pact quite clearly reflect all these changes.

In spite of all these peculiarities all concluded pacts have some common denominators.

Firstly, all are implicitly and explicitly *competitive pacts*. The core issue of all of them is the income policy i.e. the consensus on pay restraint. From the very beginning the restrictive income policy was the central among the consensually supported policies. And it was the only one among them which has been systematically consensually supported and almost without any interruption in use until the latest period in Slovenia. In this regard the last one, the post EMU pact from 2007, has one new feature. It still accentuates restrictive income policy approach, but also explicitly deals with issue of overall labour costs reduction i.e. the social security and other welfare state's reforms which would lower overall labour costs and improve the country's competitiveness. Ten years earlier dissent on this issue prevented conclusion of a pact. Ten years later it was acceptable.

Secondly, all but the first narrow pact (and agreements on income policies) are marked by the combination of the different policies, mainly those concerning incomes, labour market and social security. The number of themes has been widening systematically reaching the level of highly complex pacts in recent phases.

Thirdly, with the exception of the first pact, all others systematically occurred during the second parts of the coalition governments mandates, suggesting that their formation was strongly conditioned by the lowering negotiating power as well as by the growing legitimisation needs of the governments before the elections.

Fourthly, with the exception of the last pact, all others occurred during the periods of wide coalition governments, which included parties from the old and the new cluster. It seems that the role of the SD (former communists) was important in the processes of the pacts formation, as the pacts which were concluded without the SD participation (the third and the last one) manifested weaknesses, i.e. the lower regulative capacity than the tree others.

Fifthly, it seems that the SD – the leading party of the actual centre-left coalition (elected in 2008), which used to be key supporter of the social pacting, is close to the ascertainment that, according to the new conditions, social pacts are not instrumental any more. The new conditions certainly exists: being faced with the

escalating crisis and growing budget deficit and debt, the government is now framed by the European Commission's recovery plan demands on the one hand, and the social partners' radicalised stances, on the other. It looks like that the SD has found that, according to these new circumstances, pact formation is to inefficient and time consuming process i.e. unproductive in terms of emergency measures and the structural reforms adoption which the government was forced to define as the urgent priority of the national policies in the new, post-euro context.

This Slovenian post-euro constellation (marked by the government's increasingly unilateral policy making processes) is a result of a complex interplay of external conditions and quite specific endogenous factors. Paradoxically, it seems that exactly the *endogenous, stabile and more than a decade long social pacting processes were important factors which have induced that new Slovenian – for further/future social pacting increasingly unfriendly – environment.*

It was already mentioned that in the Slovenian case social pacts were highly functional in terms of the accession process. They assured an incremental and systematic lowering of inflation using systematic wage growth restraint. They also provided a relatively high level of job security for the core workforce. Accordingly, they not only eased the export sector's price competition, but they also induced relatively strong internal integration at different levels, most intensively especially at the level of companies. This highly integrated competitive system was already formed in the mid-1990s and then soon after that found itself in the context of accommodating to EU and EMU standards. Being exposed to the pooling effect of these standards, it swiftly transformed into the Europeanising, clearly purposively oriented system of *competitive solidarity.*

In 2004 Slovenia became a full EU member state. It soon joined the eurozone as the first of the 2004 entrants to do so. This great success was based on the systematic support of social policies and the complementary survival and development of Slovenia's welfare state.

Against the background of this impressive success a series of very gradual changes at different levels of the system had taken place. In companies exposed to growing pressures of competition, the preservation of secure employment and wage protection (combined with the decreasing unemployment protection) implied a gradual shrinkage of the fully, stabile employed workforce and its subordination to the increasingly exacting work standards/work control. At the labour market level, preservation of the system's protection was congruent with the systematic limitation of competitive pressures i.e. a systematic lowering of the supply of labour. The key element of the system for lowering that supply was the (modestly reformed) pension

system. The main problem was that the exiting from the labour market and entering of the non-active population which the pension system enabled did not manage to neutralise the growing pressure from new generations joining the labour market. In those constellations, schools and universities spontaneously started taking over the role of the supply restraint in the labour market. This pool was then used by companies which had not been able to apply numerical flexibility to their fully employed workers and they therefore started to engage a cheap workforce in the form of temporary, precarious employment and to use it as a functional substitute for their missing numerical flexibility. Such lateral and very gradual changes were the first signs of a crisis in the system which started to manifest towards the end of the approximately decade-long period. Typical signs were growing inter-generational gaps and interest fragmentations which had not (yet) existed at the beginning of the transformational period.

This gradual exhaustion of the system marked by the social pacts formation was not simply caused by external pressures, but primarily by its endogenous answers to those external pressures. In essence, the system's answer to the external pressures was founded on the unsustainable use of the inherited resources, particularly the inherited 'human capital'. At the starting point, the workforce was included in the soft regulative regimes of the official economy on one hand, and in the strong tradition of the informal economy on the other.

The first reserve which was activated early, especially within the export oriented companies exposed to the growing pressure on the international market, was the more 'precise' management of the inherited human resources implying a gradual escalation of work intensification/flexibility within the official, formal economy (see UČV 2001; FEWC 2007). This method automatically triggered an irruption of the official work load and working time into leisure time. It was the key internal contradiction of the Slovenian transformational system. At the beginning, the system generated its price competitiveness on the informal economy where a significant part of the workforce's subsistence was created. Workers and their families systematically combined this invisible 'leisure time' working with the official, relatively poorly paid official work (see Jaklič et al. 2009: 248), as the two key pillars of the long (formal and informal) working days that enabled them to sustain a bearable subsistence level. Work intensification/flexibility in the official economy gradually hampered informal work – the basis of the starting competitive advantage of both companies and the entire system, and at the end almost nullified the possibility of informal work. This basic trend was combined by systematic, more than a decade long consensually

accepted wage restraint policies. These two trends met each other at the beginning of last decade. From that point the system/regime started to change significantly.

Companies from labour-intensive sectors were the first to face serious problems. In these companies, given the growing external competitive pressures and simultaneous gradual lowering of the system's incentives created by the national monetary/exchange rate policies, the manoeuvring room for the former non-conflict work intensification based on micro-exchanges vanished. These organisations experienced ultimate self-exhaustion already before the country joined the EU. Upon joining and after the cessation of exchange rate incentives the restrictions and problems concerning regular payments of the otherwise poor wages resulted in sharp internal conflicts. The disintegration of the internal *coalitions, which used to enable non-conflict work intensification*, was inevitable. In these companies trade union representatives (shop stewards) started to lose workers' support rapidly. The same pressures started to cause significant disorganisation of the micro regulative regimes in prosperous companies, too.

To resume the paper, the following needs to be told: the final phase of the accession to the EU and the eurozone implied an additional escalation of external pressures on the system which has been already (self-)exhausted. This overlapped with the beginning of a new phase in the privatisation process which further burdened companies. And then the recent great financial crisis followed. The massive state intervention then occurred and with it a qualitatively new problem load: growing budget deficit and debt. In the meantime trade unions as well as employers' organisations were weakened and, simultaneously, significantly radicalised in their stances. The paradoxical result is that the social pacting, being embedded in the described integration processes i.e. accommodation to the EMU regime, gradually induced constellations which are – in combination with the new post-euro context, increasingly unfavourable for the future social pacts formation.

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Abbreviations

IMAD – Slovenian Institute of Macroeconomic Analysis and Development

SORS – Statistical Office of the Republic of Slovenia.

