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Between Apprehension and Support: Social Dialogue, Democracy, and Industrial Restructuring in Central and Eastern Europe

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Abstract

This article explores the attitudes of trade union organizations to restructuring and privatization of their enterprises to strategic foreign investors in Central and Eastern Europe's biggest steel producers: Poland, Czech Republic, Romania, and Slovakia. Contra advocates of insulating technocratic decision-makers from social partners, this article argues that higher quality of democracy and concomitant social dialogue carried out at the level of the sector with union organizations that are autonomous of the government in power (as was the case in the Czech Republic and Poland), are associated with greater restructuring and with support for privatization to strategic foreign investors. In these circumstances, the unions actually pressure reluctant governments to accelerate the privatization process.

By contrast, politically-motivated capture of individual enterprise-level unions and splitting them from sectoral-level organizations, as occurred in countries with lower quality of democracy (Romania and Slovakia), weakens the autonomous sectoral-level organizations, which are generally supportive of restructuring. Conversely, captured unions remain far more resistant to reform than their counterparts belonging to autonomous sectoral organizations. Thus, higher quality of democracy and concomitant vibrant social dialogue safeguard industrial restructuring.

Keywords: Social dialogue; Unions; Industrial restructuring; Privatization; Central and Eastern Europe

Introduction

The role of vested interests, including organized labor, in economic transition of postcommunist states has been the subject of heated debate. On the one hand, the neoliberal reformers advocated insulation of technocratic policy makers from the vested interests, seen to be driven by short-term financial gain and lacking long time horizons (Sachs 1993; Frydman and Rapaczynski 1994). Critics of this approach recommended the opposite: the best way to ensure continued reform was to make the decision-making process inclusive by giving organized labor a stake in the process. This would extend labor's time horizons while making decision-makers more accountable to the public (Stark and Bruszt 1998).

Despite completely different approaches to the means through which economic reform was to be achieved, both viewpoints essentially treat governments in power as reform-oriented. While the neoliberals see reform as a uniform institutional blueprint to be imposed upon society, their critics treat it as a dynamic, context-specific compromise, reconciling the preferences of government and state actors with the interests of different stakeholders and societal actors. The key challenge both approaches address is how to either block or engage potential anti-reform opposition in devising a reform program.

The choice of blocking or engaging potential labor opposition raises two questions at a more basic level, which have important implications for the broader issue of reconciling democracy with economic reform. First, under what conditions does organized labor become part of the opposition that can threaten the reform process?

Second, and more fundamentally, how does organized labor act when the government in power stalls the reform process?

These questions are of substantive importance in light of both scholarship on labor and empirical observation of developments in the region. After all, the relative quiescence of labor was a surprising development in the former workers' states (Ekiert and Kubik 1998; Greskovits 1998; Crowley and Ost 2001). This might lead skeptics to question whether labor has at all been a factor in the political economy of reform.

Unions are indeed either paltry or lacking altogether in the service sector, and they have severely weakened in many industrial sectors (Gardawski 1999; 2001). Yet, in the former flagship industries, whose employees were privileged under the former regime, unions have remained relatively powerful. In fact, these sectors witnessed several significant strikes and the politicians often used the rhetoric of fostering "social peace" to postpone far-reaching reform in these sectors.

The political consequences of delayed reform were profound. Insufficient reform and concomitant charge of illegal state aid to the steel sector became a roadblock to the closure of European Union (EU) membership negotiations for "transition leaders" like Poland and the Czech Republic. The allegation of union opposition to reform in the steel sector therefore vindicates the importance and relevance of the attitudes of organized labor to economic reform.

This article explicitly investigates the conditions under which organized labor enlists itself as part of the anti-reform opposition. It examines the relationship between the quality of democracy, structure of organized labor, and economic reform preferences of both labor and government in the critical steel sector in four transition economies:

Czech Republic, Poland, Slovakia, and Romania. The analysis considers political embeddedness of organized labor, including the incentives and signals it receives from governments whose reformist credentials are questionable.

The central argument is that higher quality of democracy and autonomous unions organized at the sectoral level are associated with greater restructuring and with support for privatization to strategic foreign investors. Quality of democracy indicates the extent to which the regime in question fulfils the criteria of a liberal democracy and displays vertical and horizontal accountability, as well as civic pluralism.[i] Union autonomy refers to union organizations not captured by the party (or coalition) in power and able to make decisions independently thereof. Labor can be organized at two levels: enterprise and sectoral. At the enterprise level, one or several unions represent worker interests in negotiations with enterprise managers. At the sectoral-level, umbrella union organizations delegate individuals who represent the interests of labor in the tripartite negotiations with business and state representatives.[ii]

The article empirically demonstrates that the politically-motivated capturing of individual enterprise-level unions and splitting them from the sectoral-level organizations by the governments in power occurred in countries with lower quality of democracy (Romania and Slovakia). This, in turn, weakened the autonomous sectoral labor organizations, which were generally supportive of the restructuring process. Simultaneously, these captured enterprise-level union organizations remained far more resistant to change than their counterparts from autonomous sectoral organizations. By contrast, in countries where the quality of democracy was higher (the Czech Republic and Poland), sectoral organizations remained cohesive and autonomous and the enterprise-level unions belonging to these sectoral organizations supported restructuring and privatization to strategic foreign investors.[iii] Moreover, in what should come as a surprise for the advocates of insulating technocratic decision-makers from societal actors, they pressured reluctant governments to speed up the privatization process.

Finally, moving beyond the debate concerning the virtues of isolating or engaging the societal actors, the article shows that in the post-privatization period, labor unions step in and support fragile state institutions. They do so by playing a watchdog function to ensure that the new investors fulfill their contractual obligations. In short, this article's central contribution is the finding that not only do the autonomous, sectorally-organized social partners not endanger the industrial restructuring process, but they also serve as guardians of their enterprises when the state fails to do so.

Contending Labor

One of the most important goals of Soviet communism was rapid modernization, to be achieved through swift, heavy industry-based industrialization that would support the military-industrial complex of the Soviet Union and its satellite countries. Workers employed in the heavy industry sectors, especially coal and steel, were particularly privileged in their remuneration and social prestige. Consequently, industrial workers were considered to be the potential losers of transition and, ergo, the greatest opposition to radical change of the *status quo*. They were expected to spearhead the popular backlash against reform after the initial "time of extraordinary politics" was over (Balcerowicz 1995).

For this reason, the neoliberal reformers advised isolating the prospective "losers" of the transition process from the technocrats in charge of making the painful, but necessary, decisions (Williamson 1990). After all, according to the neoliberals, in enterprises experiencing financial problems "workers are interested in grabbing whatever income they can before they are forced to find alternative employment…In general, the best bet of the current insiders is to maximize their own current income, come what may" (Sachs 1993: 81).

As a corollary to income maximization, the insiders were also perceived to want to defend their privileged position inside the enterprise. Hence, the unions were not expected to want to give up control over their enterprises to outsiders, including foreign investors. Needless to say, the neoliberals also treated the idea of insider control via ownership as anathema, and they argued against management and employee buyouts (Frydman and Rapaczynski 1994: 143).

The critics of neoliberalism perceived the "unconstrained executive model" as fundamentally flawed on several counts. First, it failed to incorporate societal interests, which could have key insights into maintaining the viability of reform. Second, it did not ensure mutual oversight and institutional constraint among state bodies, leading to a weak or nonexistent horizontal accountability (Stark and Bruszt 1998: 168). Third, its skepticism of the basic tenet of democracy: vertical accountability, or accountability via elections, proved erroneous.

Regarding vertical accountability, empirical evidence has shown that robust political competition, far from resulting in an anti-reform backlash, or even circumscribing reform, has actually improved the quality of resulting economic and state reform outcomes. In an important blow to the advocates of insulating the executives, Hellman reveals a positive association between the frequency of elections, concomitant executive turnover, and the extent of economic reform. Robust political competition, Hellman argues, prevents policy capture by special interests and the emergence of "partial reform equilibrium" (Hellman 1998). Orenstein focuses on the microprocesses underpinning these outcomes, as he shows that government turnover permits to correct the mistakes made by the predecessors (Orenstein 2001). Grzymała-Busse, on the other hand, demonstrates that robust political competition leads to higher quality of state institutions and prevents their capture by specific interests (Grzymała-Busse 2007).

While recognizing the merit of criticisms of the "unconstrained executive model" pertaining to vertical and horizontal accountability, this article focuses on the relationship between the executive and social partners. The critics of the executive insulation thesis argue that embedding the executive in a network of social institutions aimed at consultation leads to increased transparency as it makes the decision-makers more accountable to the public. A stake in the decision-making *process* also extends the time horizons of the representatives of labor, of civil society more generally, as well as of the decision-makers themselves, with the emerging policies becoming more cohesive. Rather than undermining the reform process, this more participatory form of democracy makes it more resilient (Stark and Bruszt 1998: 190).[iv]

Whereas the unconstrained executive approach assumes that the government is pro-reform and that the unions oppose reform initiatives, its critics do not take the reformist agenda for granted and argue for the need of government oversight; hence, their emphasis on horizontal accountability. Nonetheless, their treatment of the relationship between the state and the social partners implies a pro-reform government engaging potentially resistant unions in the reform process. What the union preferences would be in the *absence* of pro-reform prodding from the government remains unclear.

This article, on the other hand, examines union behavior in conjunction with that of the government in power. First, it investigates the conditions under which organized labor indeed threatens the reform process. Second, it explores a neglected question of fundamental importance for the discussion of the role of labor in economic reform, namely the attitude of labor when the government is not spearheading the reform effort.

When examining the relationship of organized labor to the government, there are two dimensions to consider: the structure of social dialogue and union autonomy. The structural dimension refers to whether organized social dialogue exists at the sectoral level. Thus, the question is whether the government is insulated from the unions or whether it engages the unions institutionally. Social dialogue organized at the sectoral level generally takes the form of tripartite commissions, composed of the representatives of labor, government, and business/employer organizations. In the absence of sectoral social dialogue, enterprise-level politics predominate.

The second dimension considers whether the unions are autonomous vis-à-vis the government or whether they are captured by it. Generally, individual, captured unions do not preclude the presence of a separate, autonomous sectoral organization, albeit the latter is weaker than it would have been otherwise. While one could entertain the theoretical possibility that the government would attempt to capture the unions in order to push the reform process forward, it is much more plausible that the reason for union capture would be to ensure their quiescence in the rent-seeking activities benefiting those in government and the management. Thus, the autonomy vs. capture dimension explicitly introduces the possibility of the government acting as a rent-seeker, in addition to the standard focus on the unions as an explicit or potential culprit.

Let us now elaborate upon the preferences of the unions and the government and place these in the context of sectoral reform. Reform means restructuring of the enterprises with the aim of making them economically viable on the world markets in the medium to long run without receiving state aid. The latter stipulation is crucial as in the run-up to EU accession, candidate countries needed to demonstrate these enterprises' impending ability to function on the world markets without state aid, as a condition of closing the competition chapter negotiations with the EU. Moreover, any state aid administered after 1996 required retroactive EU Commission approval, tied to capacity-cuts, with subsequent aid banned. These demands placed severe limitations on potential state intervention in the sector and on financial propping up of enterprises, whether related to legitimate restructuring or to rent-seeking. While reform entails measures such as employment, financial, technological, and organizational restructuring, given the amount of investment necessary to complete the process and the constraints on state aid to the sector, privatization to strategic (foreign) investors became the optimal solution for the cash-strapped enterprises.

The reality of EU accession thus precluded a solution whereby the state would prop up failing enterprises in an effort to maintain existing workplaces, instead of compensating workers for the loss of employment as part of comprehensive restructuring. However, one could still ask what the theoretical trade-offs are, from the viewpoint of public interest, of state support for failing enterprises in an effort to save workplaces or state support for workers laid off as part of employment restructuring. After all, both are costly for the state. On the one hand, one could argue that maintaining subsidized employment also supports employment in other places along the supply chain. On the other, however, state subsidies help maintain an obsolete, inefficient production structure and thus hinder economic development. And while one could counter-argue that economic change should be carried out in a gradual manner and that rapid employment cuts are deleterious to the fabric of society, contributing to social problems such as poverty, compensation for employment cuts is supposed to alleviate these problems.

A perhaps more compelling reason to argue that compensation for employment cuts is more advantageous from a public interest point of view is that when propping up failing enterprises in the region, avoiding of social unrest has served as a very convenient cover for the rent-seeking activities ongoing at the enterprise. Thus, only in a setting where rent-seeking is minimized, could one entertain the argument that subsidizing workplaces is better than subsidizing lay-offs. While to various degrees, the cases at hand do not belong to that category, the reality of EU accession has anyhow eliminated the option of ongoing state support.

Faced with the reform challenge, the task of the unions is to preserve employment and wages, in that order. Thus, unions oppose radical measures that would deprive their members of livelihood. At the same time, they are likely to support measures that ensure the future of the enterprise and its workers, on the condition that the workers would be compensated for any job losses and that future developments would be relatively predictable.

The organization of social dialogue at the sectoral level has several advantages. While elongating the time horizons of the main actors involved, it also provides a sectoral, rather than enterprise-specific, perspective on the restructuring challenge. This has two positive effects.

First, following the logic used by Mancur Olson when discussing the salutary effects of encompassing organizations, it enables the participants to recognize their proposals' effects on the rest of society, and, perhaps more importantly for the case at hand, on other enterprises in the sector. This, in turn, tempers the rent-seeking temptations. According to Olson, encompassing organizations, unlike very narrow "distributional coalitions," "encompass a substantial portion of the societies of which they are a part" (Olson 1982: 47). In contrast to distributional coalitions, they "care about the excess burden [to the rest of society] arising from distributional policies favorable to its members and…strive to make the excess burden as small as possible" (Olson 1982: 48).[v]

However, Olson's discussion of what constitutes an encompassing organization makes it difficult to operationalize the concept, as it is highly context-specific. At times, Olson considers a single enterprise-level union to qualify as encompassing, at others, he claims that only peak associations that cover several industries can credibly result in increased efficiency gains for society. As Olson admits, it is the *incentives* facing encompassing organizations, rather than their choices in particular circumstances, which matter the most for his discussion (52-53). It is precisely these incentives, which the present discussion borrows.

In addition to providing incentives to take sectoral interests into account, social dialogue at the sectoral level also provides crucial information, without which the unions could miscalculate the feasibility of maximizing both workplaces and wages. Without the sectoral perspective, union attitudes to reform are determined by the local context and unions' calculations as to what course of action is feasible for maximizing their goals. Factors that influence calculation in this respect are enterprise size and importance for the local economy, as well as the perception of a hard budget constraint.

So far, the argument supports the logic employed by the critics of the executive insulation thesis in that sectoral-level social dialogue increases the amount of information available and elongates both the government's and the unions' time horizons. However, let us now examine the preferences of the governments in power. While governments strive for reelection, they are also keenly aware of numerous patronage and rent-seeking opportunities that they have access to while in office and that persist as long as the largest enterprises remain under state control, directly or indirectly.

These opportunities include giving lucrative positions on the enterprises' supervisory boards to political supporters; directly engaging in business activities with the enterprises by setting up intermediaries selling overpriced inputs and buying underpriced products; or being involved in barter-based trading in inter-enterprise debt. The government in power may also pay lip service to reform while selling the enterprise to political supporters and sponsors, or even to government members. In this context, procrastinating with reforms that result in viability on world markets without state aid may well be in the interest of the decision-makers and the "desire to avoid social unrest" could serve as a convenient cover for maintaining beneficial *status quo*.

The extent of the government's access to these patronage and rent-seeking opportunities to a large degree depends on the quality of democracy: the higher the quality of liberal democracy in a given state, the smaller these opportunities. Let us revisit the types of accountability characteristic of a liberal democracy: vertical, horizontal, and accountability to societal actors, all operationalized by the Freedom House indicators. Prior to 2004, Freedom House's *Nations in Transit* produced the democracy score index by assessing the following components: political/electoral process, civil society, independent media, governance, and rule of law.

The electoral process indicator operationalizes the concept of vertical accountability. As discussed, vibrant, competitive elections increase electorate's oversight and the potential for "throwing the bums out," in part for transgressions such as corruption. Horizontal accountability serves to limit the potential for rent-seeking and is measured by the governance and rule of law indicators. By publicizing cases of abuse of power and exposing corruption, as well as simply keeping the citizens informed about the operation of government, independent media facilitate both vertical and horizontal accountability. They also foster societal oversight of the government and the state. This is measured indirectly by the civil society indicator.

Therefore, vertical and horizontal accountability as well as societal oversight, found in countries with higher quality of democracy, limit the government's patronage opportunities. This, in turn, translates into limited opportunities to capture selected unions. After all, ceteris paribus, if the unions want to ensure the workers' future, they are reluctant to engage in activities that could endanger the enterprise's welfare. However, going beyond Olsonian distributional coalitions, in the presence of inducements from the government, generally found in countries with lower quality of democracy and thus smaller accountability, individual unions may be inclined to enter into clientelistic relations with it. Thus, while harmful to the economy, the sector, and the enterprise in the long term, the short (or even medium)-term benefits for the union might be significant, in terms of preserving both jobs and wages. The government, in exchange, would gain individual union's support and free hand when engaging in rent-seeking activities within the enterprise.

By contrast, where democratic governance is of higher quality, one would expect to find greater government accountability, more limited incentives to collude with and capture unions, and hence, greater union autonomy.[vi] Whereas the lack of captured unions could be seen as one manifestation of high quality of democracy in a given country (vibrant civil society), this outcome results from a specific incentive structure, which discourages union capture.

Table 1 illustrates the discussed autonomy vs. capture and presence vs. absence of sectoral level dialogue dimensions, along with predictions concerning union behavior. Specifically, it distinguishes between the predictions of the critics of the executive insulation thesis (italicized) and union behavior hypothesized in this article (in bold). The expectation of proponents of the executive insulation model (omitted from the table) is uniform: unions block reform under all circumstances.

Table 1 about here

The preceding discussion and table 1 lend themselves to the formulation of the following hypotheses:

H1: [Inspired by the executive insulation thesis] Regardless of whether or not social dialogue is organized at the sectoral level, labor unions oppose reform. If anything, organized social dialogue enables unions to overcome collective action problem and become more vociferous in opposing the reform process.

H2: [Inspired by the critics of the executive insulation approach] Autonomous unions (assumed) are partners in supporting reform when organized social dialogue exists at the sectoral level.

Note that according to the critics of the executive insulation approach, union behavior is unspecified when no structured social dialogue exists at the sectoral level and when the unions are captured. This article hypothesizes the following to be the case:

H2a: Autonomous unions support reform when organized social dialogue exists at the sectoral level, even when the government is not spearheading reform.

H3: Captured unions oppose reform regardless of whether or not social dialogue is organized at the sectoral level.

Summing up, along with the critics of the executive insulation approach, this article hypothesizes that autonomous union organizations support reform when organized social dialogue exists at the sectoral level. However, they continue to support reform even when the government falters in its reform trajectory (H2a) and also when some unions become captured by the government and leave the sectoral-level organization. By contrast, these captured unions become the main obstacle to economic reform (H3). Again, along the lines of the critics of the insulated executive thesis, when the union organizations are autonomous, yet organized social dialogue is lacking at the sectoral level, the behavior of the enterprise-level unions is more difficult to predict as it is grounded in the particularities of enterprise-level politics. This includes the perception of the relative hardness of the budget constraint.

Case Selection

The steel sector represents a critical case in the examination of the relationship between organized labor and economic reform and, more specifically, in evaluating the executive insulation thesis. If the thesis were to hold anywhere, it should hold in this sector. Given their privileged position under the former regime, the workers in this flagship communist-era industry fit the archetype of the nefarious insiders perfectly.

There is a methodological advantage to focusing on a single sector. Since restructuring and privatization challenges vary by sector, concentrating on a single sector holds the sectoral-level variables constant and allows to focus on the variables of interest, namely the organization of social dialogue and its relationship to the government in power.

Finally, the steel sector remains very important in transition economies. At the outset of transition, the share of total manufacturing industry (in current prices) held by the basic metals and fabricated metal products branch, of which the steel sector is the core, ranged from the 19.0% in Slovakia (largest industrial sector) to 14.7% in Romania (second largest).[vii]

The branch was also an important employer. In 1992, its share of employment ranged from 17.6% in the Czech Republic (biggest employer) to 9.9% in Slovakia (fourth biggest).[viii] The sector's fate thus had important implications for the economy and the labor force of the four countries. Considered "sensitive" by the EU, the sector also mattered greatly in the EU accession process.

The selection of the four countries was driven by several considerations. First, the sector is similarly important for their economies while the countries represent four most important steel producers in Central and Eastern Europe.[ix] Second, the country cases varied significantly in terms of their political transition. While Poland and the Czech Republic were on the forefront of political and economic reform, Slovakia and especially Romania, were once considered to be the "transition laggards."[x]

Taking the mid-transition year 1997 as a reference point, table 2 illuminates the significant differences in the quality of democracy rankings of the country cases. By 1997, the Czech Republic and Poland have become consolidated democracies, with scores between one and two. By contrast, Slovakia and Romania figure in the semi-consolidated democracies category. Several scores of four or greater, namely for independent media, rule of law, and governance (in Romania), even place these countries close to the transitional government/hybrid regime.

Table 2 about here

Consequently, we would expect the incidence of government cooptation of individual unions to be greater in Slovakia and Romania than in Poland and the Czech Republic, leading to captured union resistance to reform and to overall weaker autonomous sectoral organizations in the two prior cases.

This paper uses qualitative methodology to test the presented hypotheses. More specifically, it relies on process tracing to examine restructuring over time in the context of labor-business-state interaction. Rather than providing a snapshot at a particular point in time, the examination of the entire process allows us to consider the effects of the *development* of social dialogue on attitudes of unions to economic reform in the sector, making causal inference possible.

The evidence comes from a variety of primary sources, including author interviews with the main actors involved in the restructuring process: union leaders, employer organization representatives, enterprise managers, industry experts, former ministers, and civil servants responsible for social dialogue, restructuring, and privatization. Newspaper accounts, union and government documents, and expert reports have provided further evidence. Let us now turn to the case studies, which will test the presented hypotheses.

Case Studies

Czech Republic

There were several key developments characterizing social dialogue in the Czech steel sector. First, the unions were autonomous and non-politicized, with no noted cooptation by the government. Second, they were organized at the sectoral level and participated in social dialogue with the government. Rather than blocking reform in the sector, the unions served as partners in the restructuring process, devising proactive measures to ease the social effects of restructuring. However, the Czech unions went further and in advocating privatization to strategic foreign investors in the late 1990s, they seemed to be more reform-oriented than the reluctant government.

The national-level tripartite dialogue started as early as 1990 in Czechoslovakia and it helped to reduce tensions that transpired in the industry by assigning clear social partner roles to unions and managers. This set the stage for sectoral-level dialogue between the employers' association and the union organization Odborový Svaz KOVO (O.S. KOVO), which eventually began in 1995, when the first sectoral-level collective agreement was signed. Moreover, the enterprise-level unions, supported by the sectoral and even national-level union organization, have played a watchdog role vis-à-vis the management and overwhelmingly defended the restructuring process.

In voicing their dissent, the unions rarely resorted to direct strike action and tended to proclaim strike emergencies or engaged in short-duration (e.g., hour-long) work stoppages instead. In general, interviewed trade union leaders, employer association representatives and Ministry of Industry officials involved in social dialogue at the sectoral level confirmed that the relationship with the trade unions remained harmonious throughout the transition process (O.S. KOVO leader 2003; Steel Federation, Inc. representatives 2003; Civil servant at the Ministry of Industry and Trade 2003).

In reflecting on the gradual changes in the sector, former government members pointed to union strength in the industrialized Northern Moravian region (Dlouhý 2004). Yet, while admirable in principle, social sensitivity masked the non-transparent buy-out deals with the management of the biggest enterprises in the sector, namely Nová Huť and Vítkovice.[xi] Ultimately, these deals failed and left the enterprises in financial dire straits (Sznajder 2006). As financial crisis hit the enterprises in the sector, the unions, under the umbrella of O.S. KOVO, became more involved in the restructuring process, as they pushed for the establishment of a sectoral-level tripartite commission, the so-called Consultative Team (Konzultativní Tým), to devise a constructive solution. This body brought together union leaders, employers, and the Ministry of Industry and Trade civil servants.

Organized in 1999, by 2000, the Team created the Associated Social Program (Doprovodný Sociální Program) intended to accompany the restructuring process until the end of 2003, then extended until the end of 2006, i.e., the end of the official restructuring period negotiated with the EU (O.S. KOVO leader 2003; Civil servant at the Ministry of Industry and Trade 2003). The program provided support for laid-off workers meeting specific conditions, mostly pertaining to early retirement schemes not made explicit in the enterprise-level collective agreement. From 2000 until 2003, the state paid over US$30 million to support 5,400 workers who used the program (Ministry of Industry and Trade 2003; Marek 2002).

While the unions realized the critical circumstances of the sector, the successive Czech governments, both on the right and on the left, attempted to retain the Czech steel sector in the hands of domestic owners, rather than search for strategic (foreign) investors. Nonetheless, the already mentioned management buy-out schemes ended in resounding failure. In an effort to save the majority state-owned Vítkovice from bankruptcy in the aftermath of this failed initiative, the Czech government eventually brought in a crisis manager, Václav Novák, who subsequently faced much opposition from state quarters in his effort to restructure the enterprise.

If the advocates of the insulated executive model were correct, one would have expected the unions to block reform. However, in an interview with the author, Novák underscored that his greatest ally in restructuring was the company union, supported by the sectoral organization: "…the unions were fully behind me, which is surprising because I was so radical" (Novák 2008). According to Novák, for the unionists, "the company was their life and they would do a lot for the company." "More than anyone else," they realized the danger of bankruptcy. Social dialogue became the cornerstone of the radical restructuring strategy: "I knew it that was going to be important and that's why I tried to have them on my side. That's why I went to their meeting every two weeks, explaining the progress. I had a progress report which was much more detailed for them [sic] than for the supervisory board" (Novák 2008).

The situation was remarkably similar in Nová Huť, the biggest steel plant in the Czech Republic. With the plant facing liquidity problems, the Czech government put forth a series of controversial initiatives, attempting to consolidate the sector and to create one giant enterprise, to be restructured and presumably later sold to a strategic investor.

The initiative met with opposition from numerous quarters, including the EU, the International Finance Corporation, and other enterprises and unions. In what may seem a surprising move, the Nová Huť union explicitly demanded the sale of the enterprise to a strategic foreign investor capable of ensuring the steelworks' future. Nová Huť steelworkers even protested in Prague and declared a strike emergency to support the entry of such an investor (Šmíd 2002; Adámková 2002). Seeing opposition from numerous quarters, the government decided to scrap its consolidation program and quickly to negotiate a deal with LNM Holdings (currently Arcelor Mittal) before the upcoming 2002 elections. This was not the first time the union raised such demands. In 2000, the union organized a warning strike as it demanded that the management steps down, so as to open the way for privatization to a strategic investor (Právo 2000; Čápová 2000).

Summing up, one can say that the Czech unions were a supportive force as far as enterprise reform was concerned. As economic circumstances called for more radical restructuring, unions cooperated in a proactive way as they insisted on social support for laid-off workers. They went even further, however, spurring on a reluctant government to privatize to strategic foreign investors, who would ensure the developmental prospect of their enterprises and hence, their workers.

Poland

Compared to the Czech Republic, the political and economic situation in Poland was more volatile at the outset of transition. In the paradox of Polish transformation, the Solidarity trade union, which led the struggle against communism, subsequently supported neoliberal reforms. Social dialogue at the national level was originally neglected under the assumption that Solidarity's presence in government translated into a representation of worker interests. This logic was proven wrong by social unrest in the summers of 1992 and 1993 and eventually led to the establishment of a tripartite commission at the national level.

Initiated in 1994, the tripartite dialogue at the national level was marked by alliances of Solidarity and the OPZZ (Ogólnopolskie Porozumienie Związków Zawodowych or All-Poland Trade Union Alliance, the successor to the communist-era trade union organization) with the post-Solidarity or communist successor parties. This was in contrast to the Czech case, where the unions eschewed politicization. The union landscape was also marked by numerous unions being represented within a single enterprise.[xii] Nonetheless, union politicization was far less pronounced at the sectoral and enterprise levels, where the interviewed union leaders highlighted their relatively smooth cooperation with the leaders of the other unions.[xiii] Sectoral-level social dialogue, just like its national counterpart, evolved in response to wage-related labor unrest, marking the early years of transition. According to questionnaires sent out to selected steel mills, during the course of the 1990s strikes occurred in 40% of the surveyed enterprises, with all strikes occurring prior to 1995 (Towalski 2003: 138). These findings were seconded by an interviewed representative of the Association of Metallurgical Employers who claimed that the peak of wage-related social unrest in the sector took place in the early 1990s (Association of Metallurgical Employers representative 2003; Towalski 2003: 139-140; Gadomski 1997).

These wage pressures could be viewed as evidence of the nefarious influence of unions on the reform process, yielding support for the executive insulation model. However, in what flies in the face of the executive insulation thesis, but is in line with the critique of that model, the institutionalization of social dialogue at the sectoral level put an effective stop to wage strikes.

Social unrest at the enterprise level led to union pressures to organize social dialogue at the sectoral level (Civil servant at the Ministry of Economy, Labor and Social Policy (MELSP) 2003; Orenstein 2001). In 1995, this resulted in the creation of the Tripartite Team for Social Conditions of Steel Industry Restructuring (Zespół Trójstronny ds. Społecznych Warunków Restrukturyzacji Hutnictwa), one of the very first tripartite commissions formed at the sectoral level. It involved civil servants from four ministries, five union organizations as well as the Association of Metallurgical Employers (AME) (Civil servant at the MELSP 2003; Towalski 2003). The Tripartite Team then negotiated a sectoral-level agreement, establishing minimum wage in the sector and regulating overtime wages, supplemental awards, and other financial benefits (Towalski 2003: 135; AME representative 2003). The signing of the Sectoral-level Collective Agreement in 1996 resulted in much smoother relations at the enterprise level. In the words of the AME representative, "since 1996 we had no wage-based strike in the Polish steel industry" (AME representative 2003).

At the same time, the managers were reluctant to lay off workers, as any such measures had remained contentious and no sectoral-level compensation packages have been devised. The progressive decrease in the number of workers in the sector took place overwhelmingly via spin-offs and natural attrition.

Nonetheless, as the EU pressures to comply with the EU *acquis* requirements in the steel domain increased, it became clear that more intensive restructuring steps were inevitable. According to Europe Agreement signed with the EU in the early 1990s, the sector could not obtain state aid after December 1996. However, it could get a retroactive one-time waiver, provided that the European Commission approved a restructuring program that would ensure the sector's market viability by the end of 2006 without further state aid. Yet, government efforts, starting in mid-1990s, to bring in strategic investors to finish the restructuring process could at best be described as half-hearted and lacking a comprehensive approach (Supreme Office of Control 2003).

According to Solidarity sectoral-level leader, unions realized that job losses would occur during the acceleration of the restructuring process. Consequently, the unions wanted to make sure that "no one would be left on the street" and hence, similarly to their Czech counterparts, collectively pushed for a sectoral solution for workers to be laid-off (Solidarity Metalworkers' Secretariat leader 2003). These efforts resulted in the negotiation of the Social Package for Steel Industry (Hutniczy Pakiet Socjalny), signed in January 1999 by the Tripartite Team for Social Conditions of Steel Industry Restructuring. The package provided for the establishment of additional severance payments for specific high-risk groups of laid-off workers.

The agreement paved the way for the departure of 57,000 workers during 1999-2002, with 27,400 transferred to spun-off firms. The total cost of employment restructuring amounted to about US$120 million, out of which the government covered directly about US$28 million (AME 2003). This package was followed by another one, which was to accompany the final restructuring process geared at meeting the EU viability criteria, the Activation Package for Steel Industry, signed in 2003 (Hutniczy Pakiet Aktywizujący 2003).

In short, unions accepted the necessity of restructuring in the sector and aimed at minimizing its destructive social effects. They did not just react to government initiatives, but proposed policies of their own. Importantly, they were not the reason for the incoherent policy towards the sector, displayed by the Polish government. As government insiders attested, full privatization to strategic foreign investors would have led to the loss of numerous patronage opportunities, not just by the managers but also by some state officials (Nowak 2003). Hence, neither group was committed to the process. This became particularly clear in the late 1990s.

By 2003, the situation became critical. In 2001, the Polish government vacillated between sectoral consolidation, coordinated privatization, or both. In 2001, with the election looming, the parliament passed a law providing for partial consolidation of the sector, in case a parallel, coordinated privatization effort should fail. The law introduced the possibility of establishing Polish Steelworks (Polskie Huty Stali - PHS), involving a merger between the two biggest enterprises, Katowice and Tadeusz Sendzimir Steelworks and therefore eliminating competing capital investments in these two biggest market players (Nowak 2003).

The promising 2001 privatization attempts foundered, however, as the new coalition dominated by the communist successor party, which won the fall 2001 elections, scrapped privatization talks and instead engaged in a sectoral consolidation effort. With PHS created in December of 2002, privatization talks resumed only in the spring of 2003. At the time, PHS was on the brink of bankruptcy and at the mercy of its creditors. The deadline for finishing the privatization talks loomed large, given that according to the accession agreement with the EU, state aid necessary for privatization-related debt write-offs, could only be granted until the end of 2003. Privatization (also to LNM Holdings), finally took place only in October of 2003.

In the meantime, the unions grew restless, realizing that the time for concluding the privatization agreement and the accompanying social package was running short. They were dismayed by the government's sloth regarding privatization and concerned by the resulting uncertainty of their enterprise's future. As the top managerial interests were not embracing privatization and the deputy minister responsible for the privatization process was involved in a privatization-related corruption scandal, the unions were critical.

The Solidarity sectoral level union leader said at that point in time: "The feeling right now is that we just want to know who the investor will be," as the unions could then proceed to negotiate the privatization-related social packet (Solidarity Metalworkers' Secretariat leader 2003). The PHS-level unions went even further, issuing a letter to the Minister of State Treasury, responsible for the privatization process, in which they expressed "great concern" about the tempo of the "decisions related to privatization, for which we have been waiting for a number of months." Bemoaning the "lack of clear decisions of the Polish government regarding the future of Polish Steelworks and the attempts carried out in the last weeks by certain circles aimed at stopping the decisions related to the future of the firm," the unions called for the minister to "take constant and direct control over the privatization process of Polish Steelworks, giving the enterprise an opportunity at development, which would make it possible not only to retain existing work places, but also create an opportunity for their increase" (Multi-union committee 2003). Thus, the unions clearly favored the acceleration of selection of strategic foreign investors.

Summing up, in the Polish case, autonomous union organizations favored the development of sectoral-level social dialogue, which supported and indeed took the initiative regarding restructuring. In what reflected the unions' commitment to the welfare of their enterprises and the preservation of workplaces, they demanded clear pro-reform action at a time when the government was balking at reform.

Slovakia

Similarly to the Czech Republic, tripartite social dialogue at the national level had accompanied Slovak industrial relations from the beginning of the transition process and the centralized union structure adopted an ostensibly apolitical stance. Despite its formal corporatist structure, however, the union movement had proven weak and unable to withstand government efforts to break it from within. Slovakia's near-monopolist steel producer, East Slovak Steelworks, Východoslovenské Železiarne (VSŽ), turned out to be the weak link as it broke labor unity and established patrimonial relations with the illiberal regime of Vladimír Mečiar and his Movement for a Democratic Slovakia (HZDS) party.[xiv]

VSŽ was the dominant member of the Slovak sectoral union organization, O.Z. KOVO, Czech O.S. KOVO's sister organization, and the strongest sectoral organization within the Slovak Confederation of Trade Unions (Konfederácia Odborových Zväzov –

KOZ). In addition to metallurgy, O.Z. KOVO also represented workers in the engineering and electrical engineering sectors.

VSŽ, a relatively modern enterprise, quickly became the site of extensive rent-seeking. Early in the transition process, its ownership structure became fragmented, as 65% of its shares were sold during the first wave of voucher privatization in 1993, with the government retaining the largest share. In March 1994 (three days after a parliamentary no-confidence vote in the Mečiar government), a company hastily created by members of the management closely tied to Mečiar, bought nearly 10% of VSŽ shares from the National Property Fund (FNM) at 20% of the book value, via a leveraged buy-out. Alexander Rezeš, one of the mangers, became the Minister of Transportation in the new Mečiar government, formed after the victorious 1994 elections. In the same fashion, Mečiar-controlled FNM subsequently sold another 15% of shares to a Rezeš-allied firm.

In 1994, the FNM sold the remaining 10% of VSŽ shares, at the same fraction of the book value, to Hutník, a firm set up by the enterprise-level union organization affiliated with O.Z. KOVO. Hutník was closely allied with the Rezeš management and, by extension, with the Mečiar regime. In essence, the enterprise-level trade union became a co-owner and co-manager of the enterprise, given the relatively large portion of shares at its disposal. The business activities of the VSŽ union did not meet with the support of other enterprise-level unions within O.Z. KOVO or with the approval of the O.Z. KOVO leadership, which perceived this as blatant cooptation by the Mečiar regime (Trend November 27, 1996).

Cooptation was complete when the leader of the O.Z. KOVO-affiliated union set up a rival organization, Metalurg, in November 1996, and convinced the overwhelming majority of workers to leave the O.Z. KOVO affiliate and join Metalurg. The unions within KOZ perceived the move as an effort by the Mečiar government to weaken the union movement at a time when it was becoming more critical of Mečiar's politics and policies and assertive in its demands for partnership (Priority December 16, 1996; O.Z. KOVO leader 2004). In the 1998 elections, while not explicitly endorsing a single political party, KOZ, including O.Z. KOVO, supported the anti-Mečiar opposition and the initial set of austerity measures it imposed. These developments should come as a big surprise to the proponents of the executive insulation model. They illustrate that the autonomous sectoral union organization opposed the rent-seeking government and rogue union practices and supported continued economic reform.

By contrast, the captured Metalurg was clearly opposed to reform and implicated in the rent-seeking activities within VSŽ. Given the enterprise's relatively modern technology and production profile, VSŽ remained profitable following privatization to domestic "capitalists." Still, it was quickly falling prey to elaborate schemes of "tunneling" or asset-stripping. According to an enterprise insider, Metalurg was "the gamekeeper-turned-poacher" (VSŽ insider 2004). At the same time, the *short-term* interests of the workers were being protected, with no group lay-offs and with higher wages in comparison with the other enterprises in the sector (Trend November 27, 1996). The workers, however, were growing disillusioned with the management and with the rampant theft they were witnessing.

The status quo benefited the government in power and the managers-cum-owners. One of the three top managers of one such asset-stripping intermediary, Barkos, which had exclusive rights to sell VSŽ products in North America, topped the HZDS electoral list in the 1998 elections (Hospodarské noviny October 27, 1997; Hutňan 1999: 3; Trend 2000).

In the meantime, VSŽ took out syndicated loans from Merrill Lynch in 1995 ($35 million) and ING Bank N.V. in 1996 ($125 million). With VSŽ unable to repay the loans, in 1998, the lenders declared cross-default and the enterprise found itself on the brink of bankruptcy. The new government, elected on a radical reform platform, was first of all financially unable and second, unwilling, to protect management having close ties to its political adversary. At the same time, it was keen to avert the social, political and economic catastrophe, which would follow bankruptcy and possible liquidation of VSŽ (Eichler 2008).

The new government became involved in resolving the crisis, as a foreign bank-approved crisis manager was eventually elected by the shareholders to succeed the compromised management, which resigned. The new CEO's task was to convince the banks to wait for the results of immediate restructuring and reprivatization to strategic foreign investors, rather than pressing for bankruptcy. He also started to prepare the enterprise for subsequent sale to a strategic investor who would ensure long-term development of the enterprise (Profit 2000).

The behavior of Metalurg and its leader during the debt work-out and privatization process stood in stark contrast to that of the Polish and Czech union leaders, who demanded the entry of a strong foreign partner, capable of finishing the restructuring process. Metalurg's behavior could at best be termed as obstructionist (Eichler 2008). By August of 1999, its leader even initiated an unsuccessful motion to fire the new CEO (Hospodarské Noviny August 26, 1999).

Despite numerous obstacles from sympathizers of the old management, including Metalurg's leader, the new CEO, along with the Slovak government representatives, negotiated a mutually satisfactory arrangement with U.S. Steel (Reuters Company News 2000). Critically for the region, the new enterprise, U.S. Steel Košice, would retain full employment for the following ten years, with employee departures only via natural attrition, in exchange for generous tax holidays.

Following the sale, Metalurg decided that Hutník's mission was complete and that it should end its business activities. After the union leader's departure from Metalurg, the relationship between the union and the new management has been proceeding smoothly (Top management member, U.S. Steel Košice 2004; Metalurg union leader 2004; O.Z. KOVO union leader 2004). One could also note rapprochement between O.Z. KOVO and Metalurg, with increasingly close cooperation between the two (O.Z. KOVO leader 2004; Metalurg leader 2004).

Thus, in the Slovak case, unlike those of the Czech Republic and Poland, we saw an illiberal government successfully coopt a union. In what should come as a big surprise to the proponents of the executive insulation model, the autonomous sectoral union organization, unlike the captured union, supported continued economic reform.

Romania

The Romanian case, similarly to the Slovak one, is distinctive for the initial government cooptation of the union in the biggest enterprise in the steel sector. It is also remarkable for weak state capacity and for parchment institution-like social dialogue at the sectoral level.

The autonomous National Union Federation Metarom represents metal and heavy industry workers, as well as miners, and is part of the Cartel Alfa Confederation. Unlike some other confederations, such as CNSLR-Frația, which is closely associated with the communist-successor Social Democratic Party (PSD), Cartel Alfa has remained avowedly apolitical (Metarom leader 2004; Dandea 2004; Kideckel 2001: 105).

Early in the transition process, the illiberal Romanian government aimed to weaken the nascent independent labor movement by forming alliances with powerful local unions and coaxing them to split from new, independent national and sectoral union structures. Such was the case of the mine workers in the Jiu Valley, who were initially part of the Cartel Alfa Confederation, but subsequently formed their own organization (Metarom leader 2004). In a situation analogous to that of Slovakia's VSŽ, early in the transition process, the enterprise-level union organization at Sidex, the most significant steel producer in Romania, withdrew from the Metarom Federation. It set up its own Unionist Federation of Iron and Steel Workers of Galați (Sidex's location). According to the Vice-President of the Cartel Alfa Confederation, the leaders of the controversial post-revolution National Salvation Front:

> were unhappy to see these important structures of civil society grow up and they were really unhappy that these structures would become very powerful and immediately decided to weaken these structures and used some trade union leaders in order to do that. The miners and Galați union are just two examples, but in early 1990s, these two federation structures were the most important federation structures in Romania (Dandea 2004).

The Galați union gained the status of a federation, even though it only had local representativeness (Metarom leader 2004; Civil servant at the Ministry of Work, Social Solidarity and Family 2004). Throughout transition, Sidex workers were particularly privileged compared to other workers in the sector, in terms of wages and job security (COST leader 2004; Dandea 2004, Metarom leader 2004).

With the Sidex union captured early on, the Metarom Federation clearly dominated in the remaining enterprises (Metarom leader 2004; Info Metal 1997-2004). While labor unity was undermined, Romanian social dialogue had officially been institutionalized not only at the national but also at the sectoral level early in the transition. The negotiations of the first branch-level collective agreement began in 1992, earlier than in any of the other country cases. They ended in 1994, leading to an increase in the minimum wage by 35%, giving the sector's wages the third highest rank in Romanian industry (Metarom leader 2004). Throughout the transition period, despite several short-duration general strikes and protests in the capital, the relationship with the federation was not seen as tense by state representatives (Civil servant at the Ministry of Work, Social Solidarity and Family 2004).

Regardless of the formal structure of sectoral-level social dialogue, the enterprise level had remained the core of union activity, with the sectoral-level organization playing a relatively peripheral role. Quoting Cartel Alfa's vice-president:

> the Romanian trade union structure is a very fragmented one...In many situations, the superior structures, branch or national ones, have nothing to do with the activity developed inside the plant by plant trade union [sic]. Usually, we are not interfering with the activity, we are just participating in some activity, but just in case[s] [where] we had an official request by the plant trade union (Dandea 2004).

Thus, given the relatively weak sectoral-level institutions, undermined by an illiberal government early in the transition process, social dialogue was unable to become an effective instrument for introducing greater certainty into the reform process and elongating the time horizons for all actors involved. Unlike Poland, the enterprise wage pressure persisted, despite agreements at the sectoral level. This attitude, however, changed over time, as the market mechanism became more palpable. According to an interview with a local union leader, the enterprise-level unions in Romania

> opposed large workforce reductions and policies, which prohibited wage increases when the company had very bad results. Afterwards, they realized that an equilibrium needs to be established between what can be given and what the firm's performance permits… Otherwise, they don't have a way of getting the salaries (Silcotub union leader 2004).

While the proponents of the executive insulation thesis might treat union wage pressure as evidence in favor of their argument, it is important to underscore that the wage push did not come from the sectoral-level organization, but rather, from the enterprises where the local management supported the wage requests, as it continued to engage in dubious business activities within the enterprise. A broad range of interviewees from the sector cited widespread incidence of local, politically-connected "tick companies," *firme-căpuşă*, which engaged in parasitic relationships with the state-owned enterprises (SOEs) and usually took the form of transfer pricing using intermediaries.

Shortly before the 2000 elections, the Romanian Prime Minister, Mugur Isărescu referred to "political forces blocking the privatization process," and recognized that there are "heaps of tick-companies benefiting from rents which they obtained or continue to obtain presently, from state-owned enterprises" (Mediafax November 11, 2000). In other words, while the enterprise-level unions from the autonomous Metarom federation were generally more taciturn regarding reform than their autonomous counterparts from the other country case studies, they also could not be said to be blocking reform efforts of the government.

As in the other country cases, the sectoral-level organization Metarom realized that restructuring would involve job losses and therefore demanded compensation for workers leaving the sector. However, Metarom was not content with mere severance packages but pushed for professional reconversion programs modeled after those in western Europe. In June of 1996, Metarom signed the Social Assistance Agreement for the Iron and Steel Industry Restructuring (Convenția de Acompaniament Social al Restructurării Metalurgiei Româneşti), with the precursor of UniRomSider, the current employer organization in the sector. Among others, this agreement provided for the creation of a "national solidarity fund for the iron and steel industry" to support the professional reconversion program, FONDMET (Convenția de Acompaniament Social 1996).

Whereas similar initiatives in the Czech Republic and Poland were implemented immediately upon adoption, in Romania, it took nearly five years from the time of the initial signing of the Convention by the social partners to the passage of the law implementing steel sector social assistance measures (Metarom leader 2004; Parlamentul României, *Lege nr. 145 din 3 aprilie 2001*). By that time, privatization-related group lay-offs became particularly salient. Up to that point, these were not generally being negotiated with the unions.

While the Romanian sectoral-level organization, like its Czech and Polish counterparts, recognized the need for restructuring, it is notable that Metarom, along with its enterprise-level affiliates, took a more reserved approach to privatization. While in principle, Metarom considered privatization to be "conducive to increased efficiency of the enterprises" (Info Metal International 2003: 11), the union opposed the International

Financial Institutions-inspired rapid privatization, carried out without a concomitant sectoral restructuring strategy demanded by the EU. As Metarom president put it: “We are not against privatization, but we seek that it be done in a real way, with true investors, and that the employees be given guarantees concerning workplaces or compensation” (Mediafax October 23, 2000).

This reserved attitude can be attributed to the painful privatization experience of the Romanian steel sector in the late 1990s. There were two distinct privatization waves. The first phase, over the years 1998-2000, attested to the low capacity of the Romanian state and was symptomatic of the parchment institution-like nature of its social dialogue. Marred by underspecified buyer-seller obligations, it did not involve the unions in the privatization process, and remained conspicuously silent concerning post-privatization labor restructuring.

The non-transparent privatization process and the resulting contracts created uncertainty among the workers. Mounting suspicions were usually confirmed by non-strategic foreign investors who trammeled worker rights, stripped the assets of the enterprise, or both. The egregious cases of Tepro Iaşi, Reşiţa, and Petrotub Roman vividly illustrated these problems. Rightly fearful about the workers’ future but also instigated by local political figures, the enterprise-level unions in these three enterprises vehemently, and successfully, protested to cancel the privatization contract (Sznajder 2006).

Contradicting the proponents of executive insulation thesis, instances of privatization-related enterprise-level labor unrest overwhelmingly occurred *after* signs that a specific privatization was experiencing problems, rather than prior to it. In the two remaining first-wave privatizations (Artrom Slătina and Silcotub Zalău), which were relatively successful, the engagement of the enterprise-level unions by the new management at the time of privatization (Artrom) and soon thereafter (Silcotub) was much greater (Sznajder 2006).

The second wave of the privatization process, starting in 2001, in turn, was carried out under the auspices of the International Financial Institutions, which put tremendous pressure on the Romanian government. The sectoral union was not enthusiastic about the process and bemoaned the lack of far-reaching pre-privatization restructuring, so as to sell the enterprises at a higher price. However, it did not impede the process (Metarom leader 2004). As for the enterprise-level unions, they were generally consulted, with post-privatization employment-related provisions specified in the privatization contract. In two out of six of the privatization cases, Siderurgica Hunedoara and Petrotub Roman, the negotiations were accompanied by worker unrest over the size of layoffs (Dandea 2004).

In large part, worker resentment was fueled by comparison with the privatization deal obtained by Sidex from the same investor (LNM, now Arcelor Mittal), which entailed employment restructuring via natural attrition only, for the period of five years. Sidex's 27,700-strong workforce, represented by the union captured by the government early in the transition process, was indeed a force to be reckoned with. However, in the case of Sidex, any discussion of privatization was summarily delayed by the patently politically-connected managers who reaped rents from business exchanges with Sidex and were highly resistant to changing the status quo.[xv] Whereas it is difficult to estimate the scope of this phenomenon, shortly before the privatization in 2001, the Romanian

Prime Minister estimated the number of *firme-căpuşă* at Sidex at around 1,400 (Economist Intelligence Unit 2001). Thus, the union opposition to privatization served as a fig leaf for the managerial interests.

Nonetheless, with Sidex in dire financial straits, incurring losses of $1 million a day, and with the government facing heavy pressure from the World Bank to privatize the enterprise, both the managers and the union eventually relented. Having argued for the delay of privatization, the Sidex union reconciled itself to the prospect and engaged in vigorous negotiations concerning post-privatization employment restructuring. Indeed, on July 24, 2001, the government signed a privatization contract worth $500 million with LNM Holdings, the fourth-largest world steel producer at the time (Economist Intelligence Unit August 3, 2001). In the post-privatization phase, similarly to the Slovak case, there occurred a rapprochement between the Sidex union and the Metarom federation (Sidex union leader interview 2004; Metarom leader 2004).

Overall, the Romanian case is distinctive for the initial government cooptation of the union in the biggest enterprise in the sector. Despite early *de jure* institutionalization of social dialogue in the sector, it remained largely a parchment institution, with the state lacking the capacity and the will to implement the negotiated sectoral restructuring agreements. Weakness of state institutions also exacerbated union distrust of privatization at the enterprise level, as the unions doubted the quality of buyers. However, active union opposition to privatization transpired overwhelmingly *after* the new owners failed to deliver on their privatization obligations, rather than as a deterrent. Thus, in the absence of a state guarantee concerning investor quality, the unions stepped in to play a watchdog function over their enterprises.

Case Studies in Comparative Perspective

Let us now explicitly connect the case studies to the presented theory and hypotheses, as well as to each other. In the two cases where the quality of democracy was high in the mid-transition years, namely, the Czech Republic and Poland (see table 2), the union movement had remained autonomous of the government. Both cases provide evidence against the insights of the executive insulation model, subsumed under Hypothesis 1. The lack of significant wage-related social unrest early in the transition period is associated with the development of tripartite social dialogue at the national level early in the transition period in Czechoslovakia. The Polish case, however, goes beyond correlation, and clearly illustrates a causal relationship between the institutionalization of social dialogue and social peace. Both union and employer association representatives in Poland attributed the absence of wage strikes to the sectoral-level agreements concerning wages. Thus, the Czech and Polish cases strongly support Hypothesis 2 and the insights of the critics of the executive insulation model.

However, the evidence in the Czech and Polish cases goes further than what is explicitly stated by the critics of the executive insulation model and indicates that the autonomous organizations were pro-reform *even in the absence* of a squarely pro-reform government. In both countries, the sectoral labor organizations took the initiative to organize financial and job training support to alleviate the social effects of the anticipated employment restructuring/layoffs in the sector. Second, in the key privatizations in both countries, the enterprise-level unions actually demanded that the government speed up the privatization process, so as to ensure the future of the workers of the enterprises in question. Thus, the Czech and Polish cases provide support for Hypothesis 2a, which does not predicate union attitudes on the pro-reform inclination of the government.

The Slovak and Romanian cases provide a stark contrast to the Czech and Polish ones, although there are notable differences between them. In Slovakia and Romania, lower quality of democracy placed these countries in the semi-consolidated democracies category in the mid-transition years, with the Romanian case bordering on the hybrid regime category.

In Slovakia, the illiberal Mečiar regime managed to split the labor movement by capturing the union at the biggest steelworks in the country. The captured union's behavior supports Hypothesis 3. In what provides evidence against Hypothesis 1 and in support of Hypothesis 2a, the severely weakened sectoral-level organization remained supportive of the economic reform process. It saw it as the key to providing long-term developmental prospects for the economy, in part by lowering the level of political capitalism in the country. Therefore, the sectoral organization not only supported the privatization of VSŽ to U.S. Steel, but it also endorsed the pro-reform forces in the crucial 1998 elections.

The Romanian case is more nuanced. As in Slovakia, only earlier, the illiberal government split the union movement to weaken the nascent civil society. The captured union was certainly not supportive of reform, but the politically-connected Sidex managers preempted any radical moves on its part, effectively sabotaging any reform announcements. Only after the anti-reform coalition within the enterprise saw opposition to privatization as a losing fight, did the union acquiesce to it. Thus, the Romanian case clearly supports Hypothesis 3.

The evidence against Hypothesis 1 is also strong. As is obvious from the case study, the autonomous Metarom Federation for a long time in vain advocated employment restructuring support measures similar to those of its Czech and Polish counterparts. Rather than blocking reform, the organization was trying to be a partner in the restructuring effort, even if its sway over the individual enterprise unions was relatively weak. Moreover, the fact that the lack of privatization-related social dialogue at the enterprise level in the first privatization wave only created union uncertainty and fueled mostly justified suspicions clearly contradicts Hypothesis 1. By contrast, far wider consultation with social partners during the second wave of privatization created a much smoother and more transparent privatization process.

The observed low state capacity also explains why the support for Hypothesis 2a in Romania may seem weaker than in the other cases. While Metarom wanted the state to be a partner in restructuring, taught by painful experience, it did not see privatization to foreign investors as the best solution since it simply did not trust the state to select *strategic* investors.

Conclusion

The role of labor unions in economic reform has been the subject of much heated debate. For the proponents of the insulated executive thesis, the steel sector is a critical case. Given its privileged position under communism, far-reaching restructuring of the sector would have been expected to generate much opposition among the workers. Indeed, the slogans of "maintaining social peace," given as a reason for the sluggish pace of reform in the sector, might be seen as a vindication of the insulated executive model. A close inspection of the four biggest steel producers among the Central and Eastern European countries, however, has indicated that robust social dialogue with autonomous unions, organized at the sectoral level, was conducive to reform in the sector.

Labor union vs. government relations should be considered through the prism of democratic governance. For the proponents of democratic values, social dialogue is a good in itself, an exponent of a vibrant civil society. The evidence in this paper shows that there is no trade-off between economic efficiency and democratic values as far as social dialogue is concerned. Rather, democratic practice reinforces economic efficiency. This is because other aspects of governance encountered in countries displaying high quality of democracy, namely well-developed vertical and horizontal accountability, constrain the government, making it difficult to create patrimonial ties with individual unions. Union autonomy, on the other hand, combined with functioning social dialogue at the sectoral level, creates encompassing organizations that enable the unions to look at the long-term interests of the sector's workers as a whole.

However, this emphasis on long-term strategy makes the autonomous unions behave in ways going beyond the expectations of the critics of the insulated executive approach. Rather than simply being engaged by pro-reform governments as social partners in the restructuring process, the autonomous unions have indeed pushed stalling governments to implement long-term reform in the sector, one which would preserve jobs and wages in the future.

Could it be that the autonomous unions have displayed false consciousness and espoused neoliberalism instead, as some scholars have suggested (Ost 2000)? There is not much evidence to support such a claim. Rather, the autonomous unions have understood the necessity of the entry of a strategic investor to ensure their enterprises' survival. Given the restrictions imposed by the European Union on state aid, there was not much choice regarding the method of restructuring.

One could point to the instances of privatization-related unrest by autonomous unions, as happened in Romania, to question this central finding. However, such unrest overwhelmingly took place in the aftermath of a poorly prepared, unconsulted and untransparent privatization process, which by no means brought a strategic investor into the companies. Thus, the autonomous unions played more of a watchdog function in the post-privatization period, ensuring that workers' rights are respected but also that the investors are abiding by their commitment to the enterprise.

Moreover, individual union capture by illiberal governments resulted in the weakening of the autonomous sectoral-level organizations and in vociferous opposition by captured unions to the mere suggestions of reform. Thus, once again contradicting the proponents of the insulated executive thesis, the weakening of the labor movement was associated with more, rather than less, opposition to reform.

In short, this article has shown that higher quality of democracy and concomitant vibrant social dialogue can actually safeguard industrial restructuring. Not only should reformers not be afraid of engaging in social dialogue, but they should see autonomous labor organizations as both a partner and a potential facilitator of reform.

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Table 1. Union structure and relationship to the government: predictions

	Autonomous unions	Captured unions
Social dialogue at sectoral level	*Unions partners in supporting reform* **Unions support reform**	*Union behavior unspecified* **Captured unions block reform (while autonomous ones support reform)**
No social dialogue at sectoral level (enterprise-level politics predominates)	*Union behavior unspecified* **Union support for reform depends on enterprise**	*Union behavior unspecified* **Captured unions block reform (while autonomous union support for reform depends on enterprise)**

Predictions of executive insulation critics are italicized.
Argument hypothesized in this article appears in bold.
Proponents of the executive insulation model posit that unions block reform under all circumstances.

Table 2. Democracy ratings in the Czech Republic, Poland, Slovakia and Romania, 1997

	Czech Republic	*Poland*	*Slovakia*	*Romania*
Democracy ranking	**1.50**	**1.50**	**3.80**	**3.95**
Political Process	1.25	1.50	3.75	3.25
Civil society	1.50	1.25	3.25	3.75
Independent media	1.25	1.50	4.25	4.25
Rule of law	1.50	1.50	4.00	4.25
Governance	2.00	1.75	3.75	4.25

Note: The ratings, according to Freedom House, are based on a scale of 1 to 7, with 1 representing the highest and 7 the lowest level of democratic progress. Source: Freedom House 2008.

Endnotes

[i] When assessing quality of democracy, I use the criteria of a liberal democracy since the concept captures well the multifaceted nature of transition. In addition to the minimalist electoral component (vertical accountability of rulers to the ruled), the absence of reserved domains of power for non-elected bodies (such as the military), and horizontal accountability of officeholders to one another, liberal democracy also reflects civic pluralism. See: Diamond 2003: 34-35.
[ii] Depending on country-specific organizational structure, these can be individuals representing a single umbrella organization for the sector as a whole, or individuals representing different umbrella organizations, which then coordinate their demands. The umbrella organizations are held accountable by the enterprise-level organizations.
[iii] The distinction between cohesiveness and autonomy highlights the consensus among the sectoral organizations as to their desired autonomy from the government (i.e., resistance to capture).
[iv] Stark and Bruszt use concept of "extended accountability," which combines horizontal accountability with accountability to organized societal actors (Stark and Bruszt: 188-191). For greater analytical clarity, I distinguish between the two.
[v] I thank an anonymous reviewer for this point.
[vi] The present discussion raises the question of the determinants of quality of democracy in the region. For a discussion of the literature on this topic, see Cameron 2007.
[vii] The data for the Czech Republic, Poland, and Romania are from 1990. For Slovakia, the reference year is 1993, the earliest when data was available. See: Vienna Institute for International Economic Studies 2005.
[viii] 1992 was the first year when comparable data was available. Ibid.
[ix] This article defines Central and Eastern Europe as those postcommunist countries which, Baltic states excepted, never belonged to the Soviet Union in the post-1945 period.
[x] Romania's problems were more deeply ingrained whereas Slovakia's context dramatically improved following the ouster of Vladimír Mečiar's regime in 1998.
[xi] This was in addition to the corruption-tainted sale of Třinecké Železárny in 1996, which resulted in the Civic Democratic Party (ODS) scandal in 1997.
[xii] The number would vary between two, as in the former Warsaw Steelworks and fourteen, as in Katowice Steelworks.
[xiii] Based on nine interviews with current and past union leaders, a representative of employers' association in the sector, and a civil servant at the Ministry of Work and Social Policy. See also Towalski 2003.
[xiv] In the 1990s, VSŽ was responsible for 93% of Slovak steel production and for the generation of about 10% of Slovak GDP. Employing over 20,000 people, it was indirectly responsible for about 100,000 workplaces in a country of 5.4 million people.
See: (Hutňan 1999; Marcinčin 2000: 329).
[xv] For example, from 1994 until 1999, Sidex's management was contracted out to a private firm, Siderman S.A., owned in part by Ion Florentin Sandu, a communist successor party deputy from Galați, elected in 1996 and again in 2000 (*Mediafax* April 15, 1999).