

Anatomy of a tripartite experiment: Attempted social and economic agreement in Hungary

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Having come into office in the summer of 1994, the socialist-liberal coalition of MSZP (the Hungarian Socialist Party) and SZDSZ (the Free Democrats)¹ initiated an experiment, unprecedented in the central and eastern European region. As part of its agenda, it set the objective of reaching a comprehensive social and economic agreement (TGM) to cover the whole of its four-year term, hoping to obtain popular support, or at least tolerance, for its economic recovery programme and the attendant stabilization measures. Through the pact it also aimed to establish ways of managing the social implications of the economic package, on a basis of consensus. Thus the agreement was to function as a safeguard of social peace.

Negotiations with a view to achieving the comprehensive agreement were held within the National Council for Reconciliation of Interests (NCRI),² with the Government seeking a tripartite pact to be signed also by representatives of the trade union confederations and employers'

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¹ The present Hungarian Government headed by Prime Minister Gyula Horn is a coalition of MSZP (Hungarian Socialist Party) and the liberal SZDSZ (Alliance of Free Democrats), with 54 per cent and 18 per cent respectively, of the seats in the Parliament. The previous conservative Governments of Prime Ministers József Antall (1990-93) and Péter Boross (1993-94) relied on a coalition of three parties – MDF (Hungarian Democratic Forum), KNDP (Christian Democrats) and FKGP (Small Holders' Party), now in opposition. The sixth Parliamentary party (in opposition since 1990) is the liberal FIDESZ (Alliance of Young Democrats).

² The National Council for Reconciliation of Interests, the first national level tripartite body in the central and eastern European region, was established by Hungary's last Communist Government in 1988. Its original functions were limited to wage determination (decisions on the statutory minimum wage and recommendations for average, maximum and minimum wage increases by enterprises). In 1990 its scope of authority was widened to include consultations on economic and social policy, and its institutional structure was also reinforced by the addition of specialized committees to its plenary session and by the establishment of an administrative secretariat. The NCRI has no legal foundations although certain rights were regulated by the Employment Act (1991) and the Labour Code (1992).

associations. The NCRI was deemed the appropriate forum because: (i) it includes representatives of the most significant economic interest groups – six union confederations and nine employers' associations;³ (ii) its legitimacy was considered satisfactory and popular support for it was substantial on the whole; (iii) its machinery for tripartite negotiations already had a track record of five years; it had proved its viability under the previous conservative Government and even before the change in the political system, under the last communist Government; and (iv) it had previously reached agreements⁴ which could be considered a basis for the TGM. In addition to this tripartite mechanism, the Government intended to involve representatives of a great variety of civil organizations.

What made this socialist-liberal Government's initiative unique in the region was its expectation (and endeavour) to achieve unprecedented results from tripartite bargaining. It intended to reach an overall social and economic agreement on fundamental strategic and political issues for its full term of office. However, despite impressive efforts over a six-month period (July 1994 to February 1995), this laudable idea, or "experiment", failed. What remains of the TGM is good intentions, with no prospect for its achievement in sight in the near future. Was putting it on the agenda just a mistake, or did changing circumstances turn it into a pipe dream? Was any group to blame for the failure? Is there a chance to revisit the idea, or should it be dismissed altogether? These questions are explored here, and a few lessons from the experiment are drawn.

Promising prospects and unfavourable conditions

Initially, prospects of reaching the comprehensive agreement seemed good. Yet some already suggested doubts, and hesitations and questions as to the feasibility of success became increasingly marked with the passage of time.

Favourable signs

Firstly, the Government declared its determination to bring about a change in political style and indicated its readiness for social dialogue. It has not so far given up this endeavour, even though the bargaining process attracted much criticism for "helping to undermine the Government's efficiency". Secondly, both coalition parties sought the TGM – they differed

³ For a description of the six trade union confederations and nine employers' organizations having seats in the workers' and employers' sides of the NCRI, see Tables 1 and 2. Among union confederations, Szolidaritás and KESZOSZ are not represented on the NCRI.

⁴ The hitherto most important NCRI agreement was reached in November 1992 on the 1993 budget. It covered a wide range of economic and social policy measures including the financing of employment policy, general turnover and personal income taxation, the minimum wage, recommendations for wage increases in enterprises and in public services, and social benefits. This agreement eliminated administrative wage regulations in the national economy and contained important clauses on the settlement of disagreements between the Antall Government and the trade unions.

only in approach. Thirdly, although the Government programme reflected its responsiveness to social concerns, deepening contradictions between economic recovery measures and social targets made its revision inevitable (in March 1995). Fourthly, given the significant left-wing forces present in the Government, it consistently displayed pro-union behaviour. The good relations with unions rested primarily on an agreement between the MSZP (the Socialist Party) and the largest union confederation MSZOSZ (the National Association of Hungarian Trade Unions) which ensured membership in the MSZP's parliamentary caucus for many union leaders. Fifthly, the Government had similarly good ties with representative employers' organizations (including MAOSZ, the National Association of Employers, which is a successor organization to the former Chamber of Commerce).

However, links between the MSZP, the MSZOSZ and employers' organizations gave rise to at least two dilemmas. What effect would the commitment to economic stabilization and the inevitable elimination of certain social measures have on the traditionally good relations between the MSZP and the unions? Would cordial ties with certain social partners be sufficient to reach an overall social and economic pact in an NCRI incorporating six union confederations and nine employers' organizations? (Tables 1 and 2 provide some basic information on these groups.)

Difficult conditions

Promising prospects are not identical to nor to be confused with the existence of necessary conditions. There are certain rudimentary requirements for the establishment of solid cooperation between governments, unions and employers, which would form the basis of any overall social and economic agreement. The importance of these prerequisites is clear in the present and past experience of tripartism in many countries, as well as in sociological and political theory.

For tripartism to work requires: (i) a strong government with sufficient popular support to be able to implement tripartite agreements (e.g. through legislation) and with sufficient economic leeway to enable it to induce the cooperation of the social partners with e.g. appropriate allowances (offering social assistance, tax breaks etc.); (ii) strong and united social partners, possessing the means and membership backing which give them weight in their deliberations with each other and with the government and which enable them to make compromises and reach agreements which will be supported by their members; (iii) identical or at least similar political objectives and ideological positions of the three parties on intervention in the economy; and (iv) appropriate, established institutional and legal frameworks to allow linkages, negotiations and settlements between the three parties.

It takes no scientific analysis to conclude that, despite undeniable changes in this regard, the chronic absence of most of the conditions listed

Table 1. Main characteristics of trade union confederations

| Confederations | Membership (thousands) | | | Social security board elections – May 1993 (distribution of votes%) | | Works council/Public servant council elections – May 1993 (distribution of votes%) | |
|--|------------------------|--------------|--------------|---|------------------------|--|-------------------------|
| | End of 1990 | End of 1991 | Spring 1993 | Pension-insurance board | Health-insurance board | Works councils | Public servant councils |
| ÁSZOK (Autonomous Trade Union Confederation) | 374 | 350 | 410 | 4.8 | 5.3 | 18.1 | 0.5 |
| ÉSZT (Intellectual Workers' Trade Union Association) | 63 | 90 | 110 | 6.2 | 6.8 | 0.7 | 7.2 |
| KESZOSZ (Christian Social Trade Unions' Confederation) | ¹ | ¹ | ² | 7.3 | 8.4 | 0.0 | 0.0 |
| Liga (Democratic League of Independent Trade Unions) | 130 | 250-300 | 250 | 10.1 | 13.1 | 5.7 | 4.9 |
| MOSZ (National Alliance of Workers' Councils) | 106 | 45 | 160 | 10.9 | 12.8 | 2.2 | 0.2 |
| MSZOSZ (National Association of Hungarian Trade Unions) | 1 683 | 2 000 | 1 200 | 50.1 | 45.2 | 71.7 | 9.4 |
| SZEF (Trade Unions' Cooperation Forum) | 557 | 750 | 550 | 10.6 | 8.4 | – | 49.1 |
| Szolidaritás (Solidarity Trade Union Workers' Confederation) | 75 | 150 | ² | ³ | ³ | ³ | ³ |
| Independent candidates, not affiliated with confederations | – | – | – | – | – | 1.2 | 28.7 |
| | 3 988 | 3 635-3 685 | 2 710 | 100.0 | 100.0 | 100.0 ⁴ | 100.0 |

Notes: ¹ KESZOSZ was established in January 1993. ² Data are not available. ³ Solidarity did not participate in the elections. ⁴ Total 99.6% due to rounding.

Source: Ladó, Mária; Tóth, Ferenc: *Társadalmi Párbeszéd* [Social dialogue], (Európai Szemmel, Budapest), 1993/3, p. 34.

Table 2. Main characteristics of employers' organizations

| Associations | Member organizations | Number of member organizations | Major characteristics of member organizations | Number of those employed by the member organizations (thousands) |
|---|---|---|--|--|
| Hungarian Chamber of Agriculture | regional chambers, farmers' associations | 1,000 agricultural organizations | | |
| AFEOSZ (National Federation of General Consumers' Cooperatives) | 280 cooperatives | | consumer and trade cooperatives | 115 |
| IPOSZ (National Federation of Industrial Craftsmen's Associations) – Hungarian Chamber of Craftsmen | 250 regional, 40 national associations of craftsmen | 110,000 craftsmen | | |
| KISOSZ (National Federation of Retail Traders) | 21 regional and 1 national association | 30,000 (private) retail traders | | 100 |
| MAOSZ (National Association of Employers) | 30 sectoral associations | 4,500-5,000 business organizations | 25 per cent state owned companies 75 per cent private (or partly private) companies | 2,000 |
| MGYOSZ (Manufacturers' National Association) | 93 business organizations | | the managers of bigger private and state-owned companies | 70 |
| MOSZ (National Federation of Agricultural Producers and Cooperatives) | 21 associations | | agricultural cooperatives | some 200,000 |
| OKISZ (Hungarian Industrialists) | 23 regional associations | 1,760 industrial cooperatives 4,100 SMEs | cooperatives in industry and services, SMEs | 250 |
| VOSZ (National Association of Entrepreneurs) | 26 regional, 12 sectoral associations | 6,000 to 7,000 business organizations | small undertakings, most of them in Hungarian ownership, but also joint ventures | 500 |

Source: Ladó, Mária; Toth, Ferenc: *Társadalmi Párbeszéd* [Social Dialogue] (Európai Szenmel, Budapest) 1993/3, p. 35.

above has persisted ever since tripartite collective bargaining began in Hungary in 1988. By early summer 1994 it became clear that, despite enjoying considerable parliamentary support, the socialist-liberal coalition's scope for economic manoeuvre was extremely limited. Awareness of that constraint increased dramatically in the first months of 1995.

In addition, unions and employers' organizations tend to be fragmented, and many of them have links to political interests. Further, even though the legitimacy of these associations is established, their level of popular support and their ability to mobilize their members are in doubt. In terms of political values, philosophies and ideologies, what they have in common is diversity. Perhaps the only positive aspect in this regard is the pragmatism which is typical of most of the participants in national negotiations, and which helped tripartism survive the political and ideological storms that arose under the previous Government.

Having said that, it would not be fair to conclude that the TGM was doomed to fail when the Government took the initiative. The favourable political circumstances, referred to above as a set of "promising prospects", could have constituted a positive beginning to a successful process. Political objectives and values (philosophies and ideologies) could have been clarified by their application to economic issues and become a source of strength and self-organizing of the social partners on the NCRI. The result – a tripartite failure rather than an agreement – is a product of the behaviour and interrelationships of the three parties, and as such could be blamed on all of them. There was some chance when the pact was put on the agenda but it grew increasingly remote. What seemed within reach in the summer and autumn of 1994 became an illusion by early 1995. That is the conclusion the Government arrived at by early February 1995, and the NCRI, much to its regret, had to come to terms with it on 11 February 1995.

The subject of negotiation

The story of the TGM – of the concept and the initiative – dates back prior to the 1994 elections. The FIDESZ (Young Democrats), the SZDSZ (Free Democrats) and the MSZP all supported the idea. Although initially they all referred to it as a "social pact" (later replaced by the more accurate "social and economic agreement"), they meant different things by it.

It is the MSZP's and the SZDSZ's conceptions and the differences between them that merit primary attention, given that initial developments were in fact determined by the coalition. With some simplification, the distinctions between the coalition partners basically concerned the scope of the agreement. The SZDSZ favoured a limited range of areas with a special focus on self-restraint (i.e. a voluntary reduction of real wages by the social partners) to help implement the economic agenda of the Government. In their concept, the economic recovery strategy proper (together with other strategic issues) was not going to be part of the agreement. By contrast, the MSZP placed emphasis on a strategic agreement which would include

elements of self-restraint, but not necessarily real wage cuts as such. This difference in emphasis is explained by discrepancies between theoretical and practical considerations. The SZDSZ repeatedly voiced its concerns over the possible emergence of Hungarian "corporatism", i.e. that agreements primarily between the Government and trade unions might exert institutional pressure on the coalition and on Parliament. From the MSZP's perspective, it seemed inconceivable that even the most pragmatic of trade unions should (or could) ever openly accept the idea of real wage cuts as a basis for settlement (a concern which was subsequently justified).

The TGM talks, dominated by MSZP-held ministries (Labour, Finance and Social Welfare), basically followed that party's thinking. But developments were in fact dictated by the social partners rather than by the Government. Both unions and employers' associations sought to have a say in policy-making, just as they had under the previous Government. That was why the agenda of the TGM talks (adopted at a NCRI meeting on 6 September 1994) covered a wide range of government policy issues including economic, employment, wage, regional development and transport policies. Another reason for setting up such a broad agenda was the fact that no portfolios wanted to stay out of the bargaining and the eventual settlements. The SZDSZ later criticized the agenda of the talks as too "diverse", which made an agreement "impossible right from the outset". Technically there is a measure of truth in this criticism, but basically, the initiative failed because of the Government's inability to present strategies to form the basis of possible agreements on certain cardinal issues, especially economic policy. The inclusion of non-conflictual issues in the potential pact did seem to make life easier, but in response to the Government's initiative, unions and employers were quick to lay out their long and diverse wish-lists of what they thought should be part of the TGM.

As a result of the broad agenda, the initial government concept – an overall TGM covering its full four-year term of office – was approved by the social partners themselves. The aim was to document an understanding on fundamental strategies including economic, income, wages, employment and social welfare policies. In addition, there was to be an agreement on the institutional and legal framing of labour relations. In other words, the TGM was to address vital social partner concerns, implicitly providing economic justification for measures to be taken; it was to contain appropriate employment and social policy measures and provide for broader involvement of the social partners in policy-making to offset the increased burdens and negative social implications of the economic recovery programme. The Government also proposed (and the social partners did accept) that conflictual issues specific to a particular year (such as the 1995 budget and economic policy) should be handled outside the scope of the TGM talks.

In their long wish-list trade unions initially gave first priority to the reform of labour legislation and institutions but, with employers resisting that idea, they accepted a lower priority for their claims (and even agreed to reviewing collective bargaining institutions only after the TGM had been

signed). However, in mid-December 1994 they abruptly returned to their initial approach by rejecting a limited body of amendments to the Labour Code (which had been drafted with their involvement) and re-emphasized their call for overall institutional reforms (promotion of sectoral collective bargaining and agreements, establishment of conflict management institutions; and strengthening of labour supervision). The Government was receptive on these issues but took the position that their resolution required sound technical preparation. The shift in the unions' approach was linked to the November NCRI agreement on the 1995 budget and economic policy. They decided that they "had gone to the final limit of possible concessions" and would not make any more concessions. The employers, in turn, repeatedly expressed their interest in continuing the negotiations – primarily, of course, on the economic policy and on government measures concerning the business environment. But they had raised additional issues for discussion in the autumn of 1994, suggesting other proposals and concepts that the Government should submit to the NCRI, as preconditions to the TGM. The question of the economic action agenda led to a turning point in the talks because employers, seizing on the finance minister's readiness to agree on the economic agenda, saw that also as a prerequisite to the TGM.

Tripartite talks

The tripartite NCRI discussed and agreed upon a range of issues other than the TGM in the autumn of 1994, including the 1994 supplementary budget, the draft Privatization Bill, the 1995 budget and the economic policy statement. These agreements included drastic increases in the administered prices of household fuel with limited social compensation, raising the turnover tax rates, and a 6 per cent wage increase for public services (in the context of a forecast 20 per cent inflation rate in 1995). While all of these were formally agreed, the existence of important reservations is suggested in such wording as "the social partners take note of" or "do not argue" and in diverging opinions included in NCRI reports.

The NCRI also returned to the issue of the TGM without entering into discussions of its contents. At an informal meeting in mid-October 1994 the Government gave an undertaking to draft an agreement covering prior-agreed issues, respond in detail to social partner proposals, and submit a three-year economic action agenda (at the urging of the employers and with a willing Ministry of Finance). The Government prepared the draft agreement and the detailed answers by mid-November, but the NCRI postponed discussions on the agreement. Yet the Government underscored its continued commitment to a TGM (statement of 16 December), prompting the parties to agree to speed up the process, including the discussion and finalization of a draft agreement together with a three-year economic recovery programme. The aim was a government submission to the NCRI and the signing of the TGM in late January or early February 1995.

However, changes in economic policy and in its management by the Government prevented this from happening, and the ending came quickly. On 2 February 1995, on the basis of a Ministry of Labour submission, the Government declared that it considered the TGM talks terminated since it saw no chance "at present or in the near future" for their conclusion in line with the original intent. At the same time it expressed its commitment to continuing national tripartite negotiations in general. In addition, it proposed a tripartite political statement on the maintenance and promotion of this process. Although the major social partners, including the MSZOSZ (unions) and the MAOSZ (employers), had given many indications of the need for just such a statement, the NCRI was unable even to reach agreement on the nature of such a document. Thus the TGM talks ended in February 1995 with a brief statement to the effect that the social partners had come to terms with the Government's view. Accordingly, the TGM was off the agenda.

Reasons for the tripartite failure

When the present Government came into office there were a few signs of economic growth after several years of decline in GDP, but there were severe imbalances in the government budget and in the trade and payments accounts as well as huge domestic and foreign debt and an inflation rate in consumer prices of about 20 per cent. Thus there was little room for discretionary measures. Cuts in expenditure, especially in social benefits, and a general restraint on both public and private consumption seemed inevitable in spite of an unemployment rate above 10 per cent. In this context, it was obviously difficult to negotiate a consensus on economic measures. Among the ranks of the social partners there were many likely losers and few winners. Nevertheless, it is arguable that at such difficult conjunctures agreements are most valuable. Hence it is helpful to examine the more specific reasons for the failure of the attempt to reach a comprehensive tripartite agreement on economic and social policy.

There are at least five elements in this failure, relating to the underlying political strategy, the link between short-term and medium-term issues, the limited scope for concessions in the social sphere, different views on the importance of reaching a conclusion, and the emergence of difficult circumstances which rendered deadlines unattainable. These are taken up in turn.

What was painfully absent in attempts to reach the TGM as an arrangement forged from political strategies was its very basis: well-founded political strategies themselves. Unfortunately, the Government, mostly for unintended reasons, was unable (up to the end of the TGM talks) to come up with a medium-term (three- or four-year) economic strategy. Such a strategy should have incorporated major targets and parameters including the GDP growth rate, the trade and payments balances, the capital flows balance, the rate of consumption, the level of household incomes and wages

as well as measures to meet the targets. In the absence of such an economic policy the Government was also unable to deliver properly elaborated programmes of action for employment, incomes or social policies, which depend on economic policy. If the drafters of the TGM ever fostered any illusions, these were related less to the conceptual basis of the prospective pact than to the belief that the economic policy would be in place very soon. The economic strategy remained high on the agenda but against the current economic background was repeatedly superseded by increasingly short-term stabilization measures.

In practice, the tripartite talks centred predominantly on short-term budgetary issues including the 1994 supplementary budget and the budget for 1995. Discussing these issues against a background of economic crisis and fiscal austerity yielded failure rather than success to those involved in them. As has been referred to above, the unions regarded the agreements achieved as great sacrifices, employers called into question the Government's genuine intent to promote business, and some politicians and experts on the back benches of the Government considered those agreements to be signs of a softening in economic policy. In a way, all parties were right since the compromises achieved in fact failed to satisfy any side's concerns to the required extent. It follows that the agreements on the 1994 supplementary budget and then on the 1995 budget constrained opportunities for a TGM. This also meant that even if the Government separated the TGM from annual issues, the budget agreement on the short-term questions had, at least from the unions' perspective, a negative impact on the parties' readiness to meet each other halfway. For, contrary to expectations that the agreement on the 1995 budget would pave the way towards a TGM, the effect was quite the opposite in that the unions initially in favour of the idea subsequently hardened their positions as a result of the agreement. The end finally came when news of plans to revise the just-approved 1995 budget and the possibility of a supplementary budget were leaked in early January 1995.⁵

With negotiations focusing on and confined to issues of budgetary redistribution, one major aspect of cooperation received primary attention: what did the Government have to offer to the social partners in the NCRI and what was it unable to offer? That caused the talks to be bogged down before they could move on to other issues. Little was said about the following questions: (i) What long-term political objectives and ideological endeavours could form the basis for establishing and sustaining tripartite cooperation to promote social peace? (ii) What could the Government,

⁵ The Horn Government adopted a package of economic austerity measures to reduce budgetary deficits on 12 March 1995: this package includes radical cuts in social and unemployment benefits, and cuts in the expenses and staff of state administration and public services. Social partners in the NCRI were informed of the Government's decisions without delay, and some trade unions (MSZOSZ and SZEFG) worked out alternative proposals while acknowledging the necessity of budgetary cuts. On the basis of the decisions in March – which meant a revision of the NCRI agreement on the 1995 budget and economic policy – tripartite negotiations started by the NCRI sittings in April and early May yielded no results.

unions and employers do jointly to ease budgetary constraints – a shared responsibility, albeit to differing degrees, of all three parties to the discussion? This includes areas clearly requiring urgent cooperation, e.g. the rationalization of state expenditures, control over the black economy and the collection of unpaid budget revenues. (iii) What institutional safeguards other than short-term concessions should be established (e.g. at national, sectoral and local level) to guarantee representation and protection for NCRI interest groups? (iv) Independent of government, what are unions and employers able and willing to contribute to sustaining social peace?

In marked contrast to the grand idea of the TGM, the budget debate at the end of 1994 was a sorry spectacle. The Government was seeking “social approval” for inevitable – and therefore even more unpopular – austerity measures the social implications of which were to cause the Government its biggest headache. The Government could but hope for self-restraint from the social partners. The social partners did give signs of a willingness to show restraint (and tacitly to come to terms with a reduction in real wages) – an absolute necessity for an overall TGM in the current economic crisis. Yet the extent of their willingness to concede did not seem to match the Government’s room for manoeuvre or the seriousness of the situation. The budget debate was conducted along the traditional lines of tripartite negotiations. Budget deals had been made in 1991, 1992 and 1993, and the negotiating parties were quite unprepared for talks of a different nature. The TGM talks therefore sank in the rough waters of a traditional-style budget deal before they could be steered towards a calmer sea (even if that were not free of reefs).

The idea of the TGM was posited on the assumption that all three partners were highly interested in concluding it. As emerged early on, this assumption was not well founded. Some organizations among the social partners regarded the pact as a political matter of interest only to the Government. That helps to explain why they rejected or at least had strong reservations about the initiative right from the outset. These same organizations together with others also considered the Government’s political commitment to a TGM a sufficient basis for making unlimited demands. That explains why it was not until January 1995 that social partners on various NCRI committees began to deal with the draft TGM (it was never submitted to the NCRI itself), whereas they had insisted that the Government provide the draft in early November 1994. So that was the sense in which “the TGM talks ended before they even began” as the Minister of Labour put it in early February 1995.

The Government also put itself under pressure by setting a deadline for reaching agreement by mid-October 1994. This deadline could conceivably have been met, but was not. Efforts to meet it continued for three months and not until the end of January 1995 did it become clear that further extensions of the deadline would not yield the desired result. This realization was certainly a factor contributing to the Government’s decision to terminate the negotiations. Setting a deadline was not a mistake in itself: successful

conclusion of the TGM was conceivable at the time when the Government started working towards it. It was not the time pressure that led to cancelling the TGM but the circumstances that changed, rendering conclusion by any deadline illusory.

Questions of credibility and support

By designating the NCRI as the setting for the talks on TGM and all three sides – Government, unions and employers – as its signatories, the Government signalled that it considered these parties to be the most important actors in the national economy, which presumed their credibility and substantial popular support. A general socio-economic agreement can only be negotiated and concluded by organizations which genuinely represent the major interest groups of society: the organizations must have legitimacy and be representative.

There could be no doubt about the Government's "mandate". It came into office in 1994 after winning the second free elections in Hungary; it enjoyed exceptionally strong popular support and a 72 per cent majority in Parliament. This was more than sufficient for any obligations resulting from the talks with the NCRI to be "accepted" in the form of legislation. The serious difficulties the Government had to face lay within its own scope for manoeuvre on economic issues, which proved too limited to "buy" social partner support for major concessions at the expense of the budget. Indeed, the Government might have sought to get the social partners to assume an increased share of the burden.

As regards the mandates and opportunities of union confederations and employers' associations the situation was somewhat different. These organizations secured their positions in the NCRI under the previous Government which (in 1990) ignored the issues of legitimacy and representativeness and invited all existing union and employer organizations to join in negotiations. In those days all these organizations had problems with legitimacy and representativeness.

Since 1990, unions and employers' associations have faced distinct problems of legitimacy and representativeness. No other social organizations, except for political parties, were subjected to so many tests of popular support as were the unions over the past four years. This is the result of the special attention accorded them by the previous Government. In the summer of 1991, one of the controversial "union acts"⁶ mandated reformed

⁶ The Antall Government passed two trade union Acts in July 1991 (Acts XXVIII and XXIX, 1991, *Magyar Kozlony*, Budapest 17 July 1991). The first Act obliged the unions to report their assets, sequestered those assets, blocked union funds and established a body to be the provisional caretaker of those assets and funds. At the same time it envisaged trade union elections, the results of which would serve as a basis for the redistribution of assets. The second Act – that referred to in the text – required that check-off authorizations by union members (the method typically used by the old, reformed unions to collect their membership dues) be confirmed by those members. As for the redistribution of some assets, six trade union confederations arrived at an agreement in September 1992.

unions to renew their rights to collect membership dues. This required re-registration whereby the rank and file had to declare whether or not they wished to remain members of those unions. The newly-formed union groupings such as the League and the Workers Councils were in practice exempted from this obligation since they were collecting dues directly from their members rather than by means of a deduction from payment of earnings. After the union conflicts in 1991 and 1992,⁷ in May 1993 there were elections of works councils, civil servant councils and autonomous social insurance assemblies, which clearly reflected social endorsement and established the membership of individual union confederations. The confederations of old, reformed unions, e.g. MSZOSZ, ASZOK (Autonomous Trade Union Confederation) and SZEK (Trade Unions' Cooperation Forum, the confederation of public service unions) were able to demonstrate significant social and membership support and therefore preserved their dominant position in the Hungarian trade union movement.

Thus, there is little doubt today that the union side on the NCRI represents vast numbers of wage- and salary-earners, making it a credible and substantial partner for the Government. This is all the more important since the impact of the economic recovery programme is harshest on these groups. Without genuine and firm representation of their interests, tripartite collective bargaining would be only a pretence.

The picture is much more clouded and less unambiguous on the employer side. This is to some extent a natural consequence of the permanent state of transformation – a result of the changing economic environment including the dismantling of large-scale state enterprises and cooperatives, privatization and the development of private businesses. That helps to explain why almost any social organization claiming to be an employers' organization tends to be accepted as such. Yet it is questionable to what extent self-employed entrepreneurs, traders, farmers or members of cooperatives can be regarded as employers and their organizations considered as representing employers' interests. Employers have unions as their natural partners in negotiations whereas some business interests do not. In addition, it has to be borne in mind that despite the emerging market economy the State remains the largest employer.

It is a fact (not a criticism) that in recent years employers' organizations have not undergone tests of their legitimacy or representativeness of the kind that trade unions have so successfully withstood. For instance, unlike the unions, employers' representatives in autonomous social insurance assemblies are appointed rather than elected. Nevertheless, the employer side on the NCRI is representative of a sufficiently significant number of business organizations and entrepreneurs that the Government has to take it seriously.

⁷ Conflicts between the old, reformed unions (primarily MSZOSZ) on the one hand, and the newly-formed unions (the League, the Workers Councils) on the other, focused on issues of legitimacy, representativeness and the difficult problem of the redistribution of assets.

During the tripartite negotiations and TGM talks the Government implicitly respected the autonomy of the social partners. It refrained from interfering in the shaping of their positions, policies, strategies and tactics. There are positive indications that self-organization of workers and employers, without any state intervention, is on the right track. In a context of transition, when the legitimacy and even the existence of workers' and employers' organizations may be at stake, it is especially difficult to achieve a much-needed pluralism and the expression of minority as well as majority interests while avoiding excessive fragmentation. The union side on the NCRI has remained pluralist and seems to provide appropriate opportunities for the expression of both minority and majority interests. In 1993, the union side ousted from their ranks an extremist and disruptive member organization and resisted all pressures to accept new members with dubious backing. By contrast, the employer side closed ranks and now seems to be united, despite the presence of nine unequal member organizations. The major employers' organizations (MAOSZ, MGYOSZ, the Hungarian Manufacturers' National Association, and VOSZ) have kept a low profile. The new major employers, such as multinationals, are notable for their absence from the employers' ranks in the NCRI.⁸

When a government is willing to recognize unconditionally the legitimacy and representativeness of the other sides, as the Hungarian Government indeed did, minor interest groups may gain disproportionate influence. This can also encourage individual leaders to pursue their own political ambitions, regardless of their union's or employer group's interests. This is particularly dangerous in talks where highly sensitive issues of national significance are on the agenda, as was the case with the TGM. Given the pluralism prevalent in the NCRI, it would certainly be a gross oversimplification to say that the Government failed to reach the TGM despite the MSZP "controlling", as it were, both the union and the employer sides in the NCRI.

In retrospect it is now appropriate to wonder whether it would not have made sense for the Government to try to urge self-organization among the social partners before it began to negotiate the TGM. This did not seem advisable at the time – for several reasons. Firstly, in taking an initiative based on (or at least calling for) mutual trust and cooperation it would have been perceived as a hostile gesture to urge the social partners to prove their legitimacy and support. Secondly, it would have been difficult to avoid a situation where the social partners would have considered such a gesture an attempt to interfere with their autonomy, given their unsuccessful experience with the previous Government. Thirdly, the problem was itself part of a broader set of issues, namely that of reviewing and adjusting the

⁸ In Hungary, multinationals have become increasingly important since the takeover of Tungsram by General Electric, in 1988. They – including General Motors, Volkswagen-Audi, Ford, Suzuki, Henkel, Philips, Electrolux and Nestlé among others – are united in an informal lobbying organization, the Hungarian Association of International Companies (HAIC), which is not represented on the NCRI.

mechanism of tripartite negotiations. The Government's position was that the mechanism itself should be put on the agenda once the TGM was achieved, taking into account, as far as unions were concerned, the results of the forthcoming elections of works' councils and public servants' councils,⁹ and, in the case of employers, the situation created by the emergence of chambers of industries.¹⁰

Achievements

Even if the TGM talks can be regarded as a failure for the Government and of the mechanism of tripartite negotiation, they did generate some results. The positive outcomes include the following.

Firstly, the talks maintained the process of social dialogue as one means by which the Government could gain popular support for, or at least tolerance of, its economic efforts. Without that, no economic recovery programme could be successful. Secondly, partial agreements – far from insignificant – were actually reached (e.g. on the 1995 budget and economic policy). Thirdly, tripartite negotiations became more substantive and intensive, as compared to earlier practice. This made it possible for unions and employers, key actors in the economy, to obtain first-hand information about the Government's intentions, endeavours and motives; the Government in turn received feedback on its proposed actions and their likely social implications. In addition, the TGM initiative and talks tested the strength of the NCRI and its bargaining mechanism.

In initiating the end of the TGM talks the Government stated that "in its originally proposed form the TGM cannot be concluded at present or in the near future". Thus the Government not only exempted itself and the NCRI from the "pressure" of attempting to reach a comprehensive agreement; it also left open the option of continuing the process of social dialogue which would in any case have been the essence of the TGM itself.

⁹ The remaining trade union assets are to be divided according to the results of the second works council and public service council elections (May 1995).

¹⁰ In January 1995, industrial and commercial, agricultural and craftsmen's chambers were established (on the basis of earlier legislation); they are public bodies, with compulsory membership and membership dues. Their appearance, according to observers, has placed employers' organizations in an uneasy situation.

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