DOES LABOR STILL MATTER?

EAST EUROPEAN LABOR AND VARIETIES OF CAPITALISM

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Executive Summary

This paper uses the "varieties of capitalism" framework to assess the type of capitalism that has developed among the post-communist new member states of the European Union. The varieties of capitalism (VoC) theoretical perspective makes two central claims: first, that even in a globalized era, advanced capitalist societies can be grouped according to their national production regimes -- or in short, distinct varieties of capitalism -- and second, these varieties of capitalism are largely resistant to pressures toward convergence. In this literature the two most prominent ideal types are liberal market economies (LMEs) such as the U.S. and the U.K., and coordinated market economies (CMEs) such as Germany and Sweden.

Here we simplify this framework by focusing on industrial relations, an area that makes up a central part of the varieties of capitalism perspective. We examine such factors as union density, the extent of collective bargaining coverage and the dominant bargaining level, the quality of social dialogue between social partners, the extent of employers' organizations, and the amount of strike activity. We find that, at least when focusing on the dimensions impacting labor, the Eastern European states can be mapped onto the VoC framework, and that Slovenia looks very much like a CME, whereas all of the other new member states look much more like LMEs. The Visegrad states (Poland, the Czech Republic, Hungary, and Slovakia) appear somewhat anomalous with regard to their welfare states, though we find reasons – especially the relative lack of veto power on the part of trade unions – for believing they may be subject to considerable change in a liberal direction, bringing them closer still to the LME ideal type.

How to explain that nine out of ten post-communist countries ended up with liberal as opposed to more (continental) European-style institutions? Here the logic of the VoC approach fails. Whereas the varieties of capitalism approach argues that a society's institutions will shape

its competitiveness strategy, in the post-communist cases the causal arrow was reversed. Rather than firms choosing strategies based on existing institutional configurations, states (and international actors) reshaped the institutional universe in dramatic fashion to achieve a deliberately chosen competitiveness strategy based on liberalization. To a significant degree this strategy was possible, we have argued, because the countervailing power of labor was missing. In Slovenia, while many pre-existing conditions were beneficial, mobilization by workers at a crucial time was necessary to convince employers and the state of the benefits of creating institutions enabling coordination.

Introduction

After close to twenty years of political and economic transformation, the countries of East Central Europe have been transformed from communist dictatorships into capitalist democracies, their achievement symbolized most vividly by their recent membership into the European Union (EU). Yet what sort of capitalism has been created in Eastern Europe, particularly regarding labor, which has experienced some of the most wrenching changes during this transformation?

Labor movements in the region have generally been described as weak. Moreover, prominent theories in comparative political economy argue that labor is a less important factor in shaping political economies than previously thought. Yet this paper will argue that the power of labor, if only by its absence, has played a prominent role in shaping the capitalist development in East Central Europe.

Arguably, the now extensive literature on the "varieties of capitalism" can prove useful in answering such questions. This paper will argue that the varieties of capitalism framework can be fruitfully applied to the new EU member states of Eastern Europe.[1] However, the results of so doing also suggest some limitations of the varieties of capitalism framework itself.

What follows then is not a defense or an elaboration of the varieties of capitalism framework, but an argument that its classification scheme can help answer the following questions: what is the nature of the new capitalism in Eastern Europe, and what can this new capitalism tell us about how VoCs emerge, as well as about the strengths and limits of the VoC framework itself?

This paper will argue that the varieties of capitalism dichotomy of coordinated and liberal market economies can be extended to the new member states of Eastern Europe. Having done so, the evidence strongly suggests that all but one of the new member states are much closer to the liberal than the coordinated model of capitalism, especially in those spheres regarding labor. However, the logic of the VoC approach fails to account adequately for the emergence of the distinct types of capitalism in the region in the region. In particular, the power of labor (both its absence and its presence) explains outcomes as much or more than does the interests of firms and employers.[2]

Varieties of Capitalism in Europe

The varieties of capitalism (VoC) theoretical perspective makes two central claims: first, that even in a globalized era, there are groups of national production regimes with distinctive institutional configurations -- or in short, distinct varieties of capitalism -- and second, these varieties of capitalism are largely resistant to pressures toward convergence (Hall and Soskice, 2001; Amable 2003; Kitschelt, et. al., 1999).

These claims have generated considerable discussion, and it is beyond the scope of this paper to fully recount what has become the largest debate in the field of comparative political economy. However, we will address the question of whether labor regimes in East Central Europe (ECE) can be usefully mapped onto the VoC framework. In so doing, it will delve into two related criticism of the VoC approach: whether it sufficiently incorporates the salience of power resources between different actors, particularly different classes, and whether it satisfactorily explains the emergence of distinct VoC types.[3]

In what follows, we will begin with the now somewhat conventional VoC classification of Hall and Soskice (2001), namely the two ideal types of liberal market economies (LMEs) and coordinated market economies (CMEs). Such a dichotomy is certainly a simplification, and others have argued for additional categories (Amable, 2003), a point we will revisit.

While the VoC framework was originally developed for advanced capitalist societies, recently a number of studies have either applied the framework to the post-communist region, or questioned the utility of doing so. In particular, these studies have differed on whether the LME and CME categories can be usefully mapped onto East Central Europe. Some studies have contrasted Slovenia as a CME with Estonia as an LME, suggesting the framework is helpful, but also implying that most other countries lie on a continuum somewhere in between these "antipodes" (Buchen 2007; Feldmann 2006; 2007). Others have argued for different categories, typically dividing the countries of East Central Europe (and the Baltic states) from those from the former Soviet Union. For example, King (2007) sees the East Central Europe states as exhibiting "liberal dependent capitalism" and the former Soviet states (and Romania) exemplifying "patrimonial… capitalism". Lane argues that most of the East Central European countries (in contrast to the former Soviet states) "resemble, and are likely to identify with, the continental European system as they all have embedded welfare states" (Lane, 2005: 35). Others characterize the Eastern European states as "emerging market economies," though not as a distinct variety of capitalism, since the institutions in these societies are said to be still in formation (Hancké et al. 2007).

The most extensive work on the emerging VoC in East Central Europe has been done by Bohle and Greskovits. They also argue that whereas the VoC approach assumes a fairly stable institutional environment, the institutions in East Central Europe are new, "and their consolidation cannot yet be taken for granted" (Bohle and Greskovits 2007:90). Moreover, they make a strong case that the VoC framework, created to explain advanced capitalism, is ill-suited for understanding the semi- peripheral capitalism in East Central Europe where international influences play a much stronger role.

In place of the established VoC framework, Bohle and Greskovits create categories of their own based on such factors as the level of foreign direct investment, the weight of various sectors in the economy, and the degree of state protection for industry and society. Much of this makes much sense: If the goal is to create a fully-drawn picture of the type of capitalism being developed in East Central Europe, such factors are essential, and help reveal the shadings of differences between countries in the region that could not be captured with the Hall and Soskice approach. Bohle and Greskovits thus find that "a surprising diversity of capitalism has emerged from the transformation of east European societies," or specifically "neo-liberalism" in the Baltic states, "neo-corporatism" in Slovenia, and "embedded neo-liberalism" in the Visegrad four (Poland, Hungary, Slovakia, the Czech Republic) (Bohle and Greskovits 2007a; Bohle and Greskovits 2007b).

The scope of the present paper – focusing on labor above all -- is much narrower than the approach of Bohle and Greskovits.[4] However, within this narrower perspective, I question some of their findings. First, while much of their criticism of VoC rings true, their categories of neo-liberalism (for the Baltics) and neo-corporatism (for Slovenia) look quite similar in many respects to LME and CME respectively. That leaves the category of "embedded neo-liberalism." In what follows I will question just how firmly embedded markets are in East Central Europe.

Yet given these criticisms of the VoC approach, in particular of its applicability to ECE, why would one persist in doing so? I will argue that the LME and CME ideal types help us understand essential features of the new capitalism in Eastern Europe. Moreover, while that new capitalism might be semi-peripheral, these countries are now fully integrated into the EU, and as such, there are compelling reasons for comparing Eastern European capitalism directly with that of Western Europe. Indeed, such comparisons can help elucidate just how different Eastern Europe is from most of "old Europe," particularly regarding labor relations. Further, doing so can help test the strengths and limits of the VoC framework as well.

One might also question the decision to simplify the VoC framework by confining the focus primarily to industrial relations (and the welfare state), especially since the different VoC "spheres" of each capitalist variety are said to complement each other in crucial ways. However, three of these five spheres directly impact labor: bargaining mechanisms for wages and work conditions, vocational training, and employee relations generally.[5]

Specifically, in LMEs one finds flexible or decentralized labor markets with low levels of union density, enterprise-level bargaining with limited extension to other workers, and little or poorly-functioning mechanisms of social dialogue with limited employers' coordination across firms. Education tends to focus on general skills to complement fluid labor markets, and there is a high degree of managerial prerogative with little to no co-determination in the workplace.

Conversely, in CMEs, one typically finds high levels of union membership, highly articulated mechanisms of social dialogue with well organized employers, resulting in collective agreements with a high rate of coverage at the national or sectoral level. These elements are combined with education and training systems that provide high industry-specific or firm-specific skills, and worker participation or co-determination at the workplace (Thelen, 2001; Howell, 2003; Feldmann, 2006). As Molina and Rhodes explain the logic, "The more employers are coordinated within strong organizations, and the more trade unions are articulated – both horizontally across sectors and vertically between levels of representation—the more likely it is that cross-class coalitions will develop long-term horizons and invest in specific and co-specific assets. It then becomes possible to produce collective goods (e.g. wage moderation, skills, and training provision) and the complementarities that bind them together" (Molina and Rhodes, 2007: 228).

Yet how do these different varieties come about? The VoC approach has been criticized on two points that we will focus on here: whether it can adequately explain the emergence of distinct varieties, and whether its firm-centric viewpoint, with its emphasis on employers above all, is justified.

In the VoC perspective, employers will choose strategies depending on their firms' need for asset-specific skills. Such employers, at least in crucial sectors, will seek cross-class alliances with workers, in order to reach efficient bargains that then spread throughout the economy to become its comparative institutional advantage (see the discussion in Kitschelt [2006]). This logic is closely related to arguments about the development of the welfare state, which contrary to earlier approaches emphasize the needs of employers above all in accounting for the specific ways social services are provided in different countries (Swenson, 2002). These two literatures have been recently brought together by Iversen (2005) who argues that workers won't invest in firm-specific skills unless their income is protected from the risk of losing their jobs; hence, employers and employees in such strategic firms and sectors will seek social insurance to make an investment in skills less risky. Yet is such emphasis on employers' interests justified? In arguing that it has been capital rather than labor that was central to the creation and continued viability of distinct welfare states and production regimes, these new perspectives challenge the emphasis in earlier accounts on the importance of working-class organization and mobilization in explaining distinct paths of welfare state development (Esping-Andersen 1985). Moreover, the predecessor to the VoC perspective for explaining differences between capitalisms was neo-corporatist theory, where corporatist societies, when contrasted with pluralist (or liberal) systems, where characterized above all by encompassing labor organizations.

While, as in the VoC perspective, corporatism is based on class compromise, such institutions were not created by firms seeking efficient solutions for collective action problems, but were built as means of containing the overt class conflict of an earlier period (Korpi, 2006; Crouch, 1993). Thus we have two alternative explanations for the emergence of distinct types of capitalism: the efficiency needs of firms and employers related to skills, and the degree of working-class mobilization at crucial periods. Arguably the recent emergence of capitalism in East Central Europe can help untangle which of these factors best help explain the formation of distinct varieties.

Labor and the New Capitalism in Eastern Europe

What type of capitalism has emerged in East-Central Europe, particularly with regards to labor? Perhaps the most basic measure of labor's strength, and an important dimension on which liberal and coordinated market economies are said to differ, is the rate of union membership, or density. Since union membership was nearly compulsory in many communist societies, it is not surprising that membership rates have dropped considerably. However, union density in the new EU member states is generally well below that of the old member states, at 24.6% on average for the new member states, and 38.2% on average for old members (Visser, 2004; Lado, 2002). Despite starting from much higher union membership rates, if the goal was convergence, the countries have already overshot the mark [see figure 1].

Union density, however, is an imperfect indicator of labor strength. For example, coverage laws mean that in some countries, such as France, collective bargaining agreements extend far beyond union members. Collective bargaining coverage, and the level on which those agreements are reached, are central to the distinction between coordinated and liberal capitalisms.

Collective agreements were virtually compulsory if fairly meaningless in the communist period. Yet, even more so than with the union density data, the coverage rate for collective agreements in the region has declined well below the EU norm. If we exclude the outlier Slovenia, the average coverage rate for Eastern European average is 31%, compared with the average coverage rate for old EU members of 79% (Eurofound, 2007).

When we combine this union density with the rate of collective bargaining coverage, we can see a visual representation of labor relations in Europe that is divided into two patterns [see figure 2]. The post-communist societies (ECE) are clustered in the lower left of the chart and form a distinct group with the UK, the clear outlier among the old (EU-15) member states. The old member states form another (though less distinct) cluster, joined by Slovenia, the clear outlier among the East Central European states.

The level on which collective bargaining takes place is also essential to the quality of collective bargaining, as well as to the distinction between coordinated and liberal economies. Slovenia aside, almost all bargaining in Eastern Europe takes place at the company level (Schulten, 2005). Visser’s "centralization of wage bargaining index" measures the degree of centralization in bargaining on a scale for 1 (fully centralized) to 0 (no centralization). By this measure, the degree of centralization in bargaining is .46 in Western Europe, and .28 in Eastern Europe (Visser, 2004). When we combine this centralization index with collective bargaining coverage, we get a similar image of collective bargaining in Europe [see figure 3].[6]

In coordinated market economies at least, collective bargaining takes place through mechanisms of social dialogue or corporatism, though social dialogue often extends beyond collective bargaining to include such issues as employment and social policies. Some have argued that social dialogue or tripartism has contributed to labor peace in the region, at least in the early transition years (Iankova, 2002; 1998; Hethy, 1994). However, most of the studies of post-communist corporatism have found these institutions to be rather weak and ineffective (Ost, 2000; Crowley and Ost, 2001; Kubicek, 1999; Thirkell, Petkov, and Vickerstaff, 1998; Heinisch, 1999). Once again, Slovenia remains a striking exception.

Moreover, there are sound reasons for pessimism about the corporatist experiment in Eastern Europe. One important explanation for the weakness of social dialogue in East Central Europe is the weakness of employer organizations. Again, the VoC literature argues that rather than labor, it has been capital, through employer organizations, that was central to the creation and continued viability of coordinated market economies. Yet, in post-communist societies, the lack of strong employer organizations has been, in the words of one study, "the most significant weakness in industrial relations since the beginning of the transition" (Vaughan-Whitehead, 2003, p. 259). In contrast to Western Europe, where social dialogue evolved through the mutual interest of the social partners, in East Central Europe the state, together with trade unions, has tried to push reluctant employers to organize, though with only partial success.

In quantitative terms, only Slovenian and Hungarian employers are organized at the same level as those in the UK, which has the lowest level of employer organization in Western Europe [see figure 4] (Visser, 2004). Needless to say, it is hard to engage in social dialogue if the social partners -- or “organized interests” -- are not effectively organized. Further, the weakness of employer organizations directly impact another central sphere of the VoC framework that we will not delve into further here, namely the level of inter-firm relations. Simply put, it is hard for employers to coordinate their actions without first being organized.

Yet, as we have seen, another explanation for the establishment of corporatist institutions has been the mobilization power of workers. While labor peace coincided with strong corporatist systems in the postwar era, many argue that corporatist institutions evolved historically as a response to high levels of labor unrest in Scandinavia and elsewhere. “As conflict became significant, employers and governments sought to construct institutions that might contain it; elsewhere, workers ability to disrupt was too sporadic for employers to bother” (Crouch, 1993, p. 99)

Labor in Eastern Europe, despite the legacy of Solidarity, has seen the wrenching economic transformation, and the weakness of collective bargaining. As such, labor has not displayed sufficient mobilization power to compel employers to construct significant institutions of interest intermediation, or arguably, even to organize themselves. Strike rates have been significantly lower in Eastern than in Western Europe from the 1990’s to the present (Crowley, 2004; Vanhuysse 2006). While some have pointed to a general decline in strike rates in Western European societies to suggest a convergence of strike rates across “old” and “new” Europe (Armingeon, 2006), that convergence has yet to occur [see figure 5].[7]

The varieties of capitalism literature argues that employers’ organizations are central to coordinated economies less because of labor strength than because of the need to prevent the poaching by other firms of workers who have acquired industry-specific skills. Without such coordination firms are unlikely to invest in vocational training. In contrast, in liberal economies, with much less cooperation between employers, training tends to take place in formal educational institutions that provide the general skills needed by workers facing flexible labor markets and uncertain employment patterns.

Under state socialism, state-run technical schools cooperated with state firms to create firm and industry-specific skills, leading to a system that was said to be very similar to Germany (Buchen, 2007). With the collapse of communism, the presence of skilled labor was often said to be one of the comparative advantages of the region.

However, with the collapse of communism, vocational education has largely deteriorated, and the general trend since the communist period has been to move to more general skills training (King, 2007). This has been the case even in Eastern Germany, where, in contrast to other communist economies, the GDR "enjoyed an established practice of industrial apprenticeship" based in part on the historical roots of apprenticeship training in pre-war Germany. Eastern Germany also enjoyed a seeming advantage over other post-communist countries, in that employers' organizations and trade unions were transferred from west to east.

Despite these advantages, Eastern Germany lacked an uninterrupted tradition of "decentralized cooperation" among private employers to produce the skills needed by competitive firms, so that "in the decade since unification, Eastern German firms overall have not invested in apprenticeship training at levels that constitute anything like a high-skills equilibrium" (Culpepper, 2001). Meanwhile Baltic states have moved explicitly toward general skills education, with deskilling as a result (Woolfson 2008; Buchen 2007; Bohle and Greskovits 2007). The one exception again is Slovenia, which has a “dual system of apprenticeships, very much like the German system” (Buchen, 2007).[8]

Slovenia and the Emergence of Coordination

Nevertheless, with the partial exception of welfare states of the Visegrad countries aside, the evidence we have examined suggests that with one exception, the Eastern European states are much closer to LME category than to the CME category. At the beginning of “transition,” when the emphasis of reformers was on devising strategies to push liberalization, privatization and other socially disruptive policies passed presumed entrenched interests, it would hardly have been predicted that the post-communist states of East Central Europe would end up more “liberal” than the mature capitalist economies to their west. Yet, in hindsight, it is perhaps not so surprising, but I will not attempt to explain fully this widespread adoption of liberal institutions here.[9] But how to explain why Slovenia appears to be so different from other post-communist states? The answer to this question is important, among other reasons, because it allows us, perhaps uniquely, to trace the recent, and rather rapid, development of a CME. The VoC framework has been criticized for its rather static approach, emphasizing institutions that reinforce states of equilibrium, without providing a full account of how these institutions and resulting equilibria emerge. Others have examined Slovenia for precisely this reason, and argued that the Slovenian case is quite consistent with the tenets of the VoC perspective (Feldmann 2006; 2007). I will argue here that the picture is more complicated.

While a full explanation of the Slovenian deviation lies beyond the scope of this paper, there are a number of factors that led to its relative success. Slovenia was a republic within Yugoslavia, and this had several consequences. Yugoslavia was the most market-oriented of countries within Communist Eastern Europe, and since it was outside the Soviet bloc, it had extensive trade relations with the capitalist world. Slovenia was also the most “Western” of the Yugoslav republics, both in terms of geography and in its market orientation, its trade profile, and its standard of living.

Thus upon independence, Slovenia was a largely market-oriented economy already, with a higher standard of living than any other former communist country. As such, it was less susceptible to IMF pressure, and partly as a result, able to pursue a "gradualist" approach to economic transformation, and the initial recession was not as severe as elsewhere (Vaughan-Whitehead, 2003, pp. 128-9; Feldmann, 2006).

While much of this helps explain why Slovenia has been relatively successful, how can we account specifically for the rapid emergence of coordinated institutions? Feldmann (2007), in describing his “theory of emerging VoC coordination,” emphasizes the role of networks, or ties among actors that can help solve collective action problems (see also Hall and Soskice, 2001). In the Slovenian case, he points to two important policy choices that helped transform proto-networks into institutions promoting cooperation.

First, while many different forms of privatization were debated, the ruling party of the time had “close ties to the old economic elites, including enterprise directors”. Largely for this reason, the government choose a privatization strategy that privileged insiders, “which essentially cemented the pre-existing networks by strengthening the role of insiders as owners” (Feldmann, 2007: 343-44).

The second policy innovation was centralized collective bargaining, which Feldmann argues came about in part because membership in the employers’ organization, the Chamber of Commerce, was mandatory. Yet this is insufficient to explain why employers would choose centralized bargaining. Slovenia chose a managed float for its currency, which led to wage increases:

> “Real wage increases became unsustainable in the early 1990s, and this was a source of major concern to employers (especially exporters) and the government. The establishment of [tripartism] in 1994 followed a year of very high wage increases – 11.6 percent in 1993—and the centralization of wage bargaining was seen as a key step to combat this problem (Feldmann, 2007: 346).

One can emphasize further that the Slovenian economy centered around a core group of export-oriented companies, where workers cooperated with managers in a form of Streeck’s

(1999) “competitive solidarity”[10]. In this way, managers and workers in this sector developed a cross-class coalition, and this coalition within this dominant sector had a strong influence on the laws that became the core of the Slovenian coordinated model (see Hancké, Rhodes, and Thatcher [2007] on the theory of cross-class coalitions).

The left/center government that ruled with considerable stability for twelve years was very much influenced by this sectoral coalition, and government policies, such as privatization and monetary policy, were tilted toward the benefit of this sector. Adding all of this up, the Slovenian case would appear to confirm much of the institutional logic of coordinated economies.

However, there are important elements missing from this account. First, in contrast to the rationalist explanations prominent in the VoC literature, a more historical institutionalist approach would examine the ideological underpinnings of institutions, as well as the incentives they present. Second, an alternative approach would ask to what extent labor and class conflict (rather than employers and cooperation) played a prominent role.

For example, a more historical approach would emphasize that the Yugoslav experience with communism was quite different than that elsewhere in the region. Thus, unlike other Eastern European countries (excepting Albania), communist rule came about in Yugoslavia through an indigenous revolution, rather than being imposed by Soviet tanks. This basic fact – whether communism was viewed as home-grown or alien – has had an enormous impact on how communist-era institutions and symbols became viewed in the post-communist era.

Moreover, the ideology and institutions of Yugoslav "self-management" had significant consequences (Woodward, 1995). Most concretely for our purposes, unlike other communist states, the Yugoslav regime tolerated strikes, which were seen as actually supporting its legitimacy and were aimed at (relatively independent) enterprise directors rather than state or Party officials. By the late 1980's Yugoslavia was faced with a massive strike wave, as the country underwent economic crisis and hyperinflation (Stanojevic´ 2003).

As Slovenia achieved independence in June 1991, the strike wave continued, and in effect "connected the country's 'communist' and 'post-communist' periods" (Stanojevic´ 2003: 18). Indeed, the relationship between the Slovenian state (in formation) and trade unions "started in a confrontational manner" (Mezmann 2007). Upon independence, the government unilaterally froze wages and suspended collective agreements, and unilaterally issued a draft agreement on social stability; in response, the main union federation (ZSSS) organized a massive warning strike that involved work stoppages, blockades and a two-hour power cut (Meszmann, 2007:13).

The strike wave, which had begun in the late 1980's before independence, reached a peak in 1992, when "Slovenia was faced with the possibility of an explosion of social unrest" (Stanojevic´ 2003:28). Strikes began to taper off in the years after, and by the end of 1990s, strikes in Slovenia were rare. We need to use caution in interpreting Slovenian strike data, since they come from the main trade union federation.11 However, according to these figures, during the crucial years of 1992 to 2000, Slovenia was by far the most strike-prone country in East Central Europe: the volume of strikes (or working days lost per 1,000 employees) in these years was 92 in Slovenia, compared with 21 elsewhere in Eastern Europe [see figure 6]. This is rather surprising when one considers that Slovenia has the strongest corporatist institutions in the region, and is often characterized as a society with considerable labor peace. However this characterization fits only from the mid-1990's onwards.

What were the consequences of this strike wave, and what might explain the decline in strikes after 1992? The immediate impact of the "warning strike" of 1992 was that it led to disagreement within the governing coalition, which came apart in April, leading indirectly to the election of a center/left government that remained in power for 12 years (Meszmann 2007:13). But most importantly, the basic institutions of Slovenia's post-communist political economy were forged during, and often in direct response to, this period of intense labor conflict. To be sure, the strikes were often led not by workers in the leading, Western-oriented and highly-skilled export sector, but more often by workers in less-skilled labor-intensive industries, often oriented to less profitable Yugoslav markets (Stanojevic´ 2003). Moreover, the immediate demands were often defensive in nature, protesting low wages or their late payment.

However, the strike wave coincided with debates over the form of privatization for the Slovene economy. As Feldmann notes (2007), a number of different proposals regarding privatization were on the table at this time. However, the Law on Ownership that was passed in 1992 coincided with the demands of the ZSSS for employee ownership, which soon became widespread, and helped define "the inclusion of workers' interests in the 'post-communist' order as the Slovene model of transformation into capitalism" (Stanojevic´ 2003:28; Mezmann, 2007). The next year, the law establishing worker co-determination was passed; in 1994, the tripartite council was created, setting up one of the most extensive collective bargaining systems in Europe.

Conflicts over collective agreements and wages continued (and strike volume remained high through 1995), but though these laws labor's voice became institutionalized (Meszmann 2007). As argued by Stanojevic, the leading scholar on the politics of Slovenian labor:

> "The discontent expressed through the strikes was extremely intense, so the price of its lowering was high. The Slovenian political elite, under the pressure of massive social discontent, had to promote striking workers into being (co-) owners of the factories. This was the direct price for 'calming down' the tensions" (Stanojevic´ 2003:28).

To be sure, a number of crucial factors helped create the coordinated model for Slovenia, not least its relatively favorable starting conditions, including the Western-oriented and highly-skilled export sector whose interests, as the VoC approach would predict, came to dominate the political economy. Yet other factors were equally important and have been overlooked. In particular, labor mobilization played a substantial role in the formation of Slovenia's coordinated economy. Of the two factors that Feldmann argues were central to "network promotion" in the creation of Slovenia's CME – insider-privatization and centralized bargaining – both were directly impacted by the strike wave (the latter directly through worker demands, and indirectly through wage increases that gave employers the incentive to coordinate wage bargaining).

Of course, strikes by themselves won't bring about coordination. It was not only important *that* Slovenian workers mobilized, but *when* they mobilized that was crucial: when the basic institutions of post-communism were being forged, not least the form of privatization. Yet even this is insufficient: Poland also experienced strikes early in the post-communist period. However, while employee ownership had once been a prominent part of the agenda of Solidarity, it was pushed to the sidelines by demands for liberalization and anticommunism (Ost, 2005).

This again suggests the importance of distinct ideological legacies of the Communist past. While Slovenian unions had their own adverse legacy to overcome, the Yugoslav form of socialism left workers with a legacy of worker mobilization, with or without unions. That the Yugoslav legacy was different would appear to be confirmed by recent accounts of worker mobilization elsewhere in the former Yugoslavia: in Serbia and Croatia, a number of worker occupations have taken place as a means of protesting what are seen to be illegitimate privatizations (Grdesic and Meszmann 2007). Though these protests typically take place without union backing, unionization rates in Serbia and Croatia are in the range of 40%, making them, along with Slovenia, the most unionized Eastern European states.

In the case of Slovenia, once these core institutions, formed during the strike wave, were put in place, the basic elements of coordination spread throughout the Slovenian economy, as did labor peace and political stability. However, recently the Slovenian CME model (as with other CMEs) has come under considerable pressure, including from "employer demands to negotiate pay at company level only" and labor has continued to mobilize, so far successfully, to prevent what some characterize as the "rather radical demands of employers to reduce workers' rights" (Eurofound, 2007b).

In short, while there are limits to what one can conclude based on this one case, Slovenia remains the sole example of a coordinated economy among the ten post-communist EU members, and the evidence lends support to those who argue that the power resources of labor are important in determining which distinct path of capitalist development is followed, and that conflict is perhaps a necessary step to cooperation and coordination.

Conclusion

We have argued that, at least when focusing on dimensions impacting labor, the Eastern European states can be mapped onto the VoC framework, and that Slovenia looks very much like a CME, whereas the other new member states look very much like LMEs. The Visegrad states appear somewhat anomalous with regard to their welfare states, though we find reasons – such as the lack of veto power on the part of trade unions – for believing they may be subject to considerable change in a liberal direction, bringing them closer still to the LME ideal type.

Yet some have argued that Eastern European institutions remain in a state of flux, and are still emerging, so that it is too soon to tell what type of capitalism they will eventually form. Institutional change is certainly taking place in East Central Europe, as it is a nearly universal fact of social life. However, some forms of change are more probable than others, because they are facilitated by existing patterns of institutions and power resources, while other types of change, while not impossible, face greater constraints.

Of course, institutions in the region are newer, and consequentially not as hard-set. Indeed, no part of the world has experienced more dramatic institutional change in recent years. Yet this merely increases the doubts about further dramatic change, such as the development of coordinated institutions. For rather than emerging, core institutional decisions have been made. In fact, at least for the changes of the past two decades, Eastern Europe experienced less of a transition (suggesting evolution) than a revolution (suggesting rapid transformation followed by consolidation).

Critics have argued, with good reason, that such "punctuated equilibrium" models fail to explain all forms of institutional change (Streeck and Thelen, 2005). However, the post-communist period would appear to be an exemplary case of punctuated equilibrium. Among other changes, post-communism entailed the transfer of entire economies from the state to private hands, establishing a class of previously non-existent property owners in the process. Moreover, the accession process, and the considerable leverage the EU held with it, is now over (with the telling exception of monetary union, which as we have argued, will leave little room to revise labor and social standards "upwards"). While the region has experienced institutional change of historic proportions, the moment of institutional openness has now come to a close. In this sense at least, the post-communist era has ended, although as institutional (and revolutionary) theory suggests, the ways in which post-communism was resolved will have long-lasting consequences.

This would suggest considerable doubt about the likelihood that the LMEs of East Central Europe will converge, even if only gradually, toward the more coordinated practices of continental Europe. Further, as Bohle and Greskovits have demonstrated, that while Hungary and some of the other Visegrad states have moved from being primarily low-wage producers to relying on more complex production methods relying on more highly-skilled labor, there has been no commensurate change in union bargaining power (Bohle and Greskovits 2007b).

Wages and living standards have also risen fairly dramatically in most new member states in the few years since accession, suggesting that, should present trends continue, convergence in those areas is not as far off as once thought. There is some evidence that workers are using the tightening of the labor market to strike and press collective demands (Meardi, 2007). Yet much of the upward push on wages comes from labor migration – that is, workers choosing individual rather than collective strategies. While migration might tighten labor markets and increase wages, in the process some, often the most capable, leave, while others, farther from the east and more politically vulnerable, take their place.

This paper has painted a picture of labor in the region with a broad-brush, relying on quantitative indicators rather than more subtle case studies. In doing so, we have overlooked examples of labor mobilization in certain countries and certain sectors; however, there is little sign at present that such actions will reach the threshold needed to generate institutions that might spread widely and come to dominate the economy. For one, unions with high rates of membership in the region were fairly easily dismantled; now devoid of resources, they would face a much daunting challenge in reconstituting themselves. More importantly, even if mobilization were to increase, it largely failed to occur when key decisions about institutional design, such as the mode of privatization, were being made.

For instance, workers in Croatia and Serbia, enabled in part by the legacy of Yugoslav self-management, have carried out some dramatic actions in recent years to protest the way individual firms were privatized (Grdesic and Meszmann 2007). Yet, largely because these societies were engulfed in nationalist struggles at the time, in contrast to Slovenia they failed to mobilize when the overall method of privatization itself was being debated. Taken together, this would support a core assumption of the VoC approach: that convergence of the regions LMEs to a more coordinated model appears highly unlikely.

Yet if distinct types of VoC did form in East Central Europe, how did they do so? Here the logic of the VoC approach fails. Whereas the varieties of capitalism approach argues that a society's institutions will shape its competitiveness strategy, in the post-communist cases the causal arrow was reversed. Rather than firms choosing strategies based on existing institutional configurations, states (and international actors) reshaped the institutional universe in dramatic fashion to achieve a deliberately chosen competitiveness strategy based on liberalization.

The implementation of this liberalization strategy has been stunningly successful; to a significant degree it has been so, we have argued, because the countervailing power of labor was missing. In Slovenia, while many pre-existing conditions were beneficial, mobilization by workers at a crucial time was necessary to convince employers and the state of the benefits of creating institutions enabling coordination. Indeed, the near-absence of coordination among post-communist cases underscores what others have argued from examinations of the development of coordinated institutions elsewhere -- that the development of coordinated market economies appears to be particularly historically contingent and difficult to construct (Streeck and Yamamura, 2001; Howell, 2003). This suggests a considerable unevenness to the varieties of capitalism: while varieties exist, some varieties are much harder to create than others.

In short, while a number of studies have uncovered the importance of employers in shaping production regimes and welfare states, the power of labor still matters, even when it is absent. We have not even mentioned the political implications of labor's missing power in the region, so forcefully argued by Ost (2005). Nor have we explored the possible consequences of these liberal regimes on the now-expanded EU, and their potential contribution to the already considerable pressures faced by the existing CMEs of Western Europe. That question will have to be explored elsewhere.

Figure 1:
Trends in Density Rates, Old and New EU Members

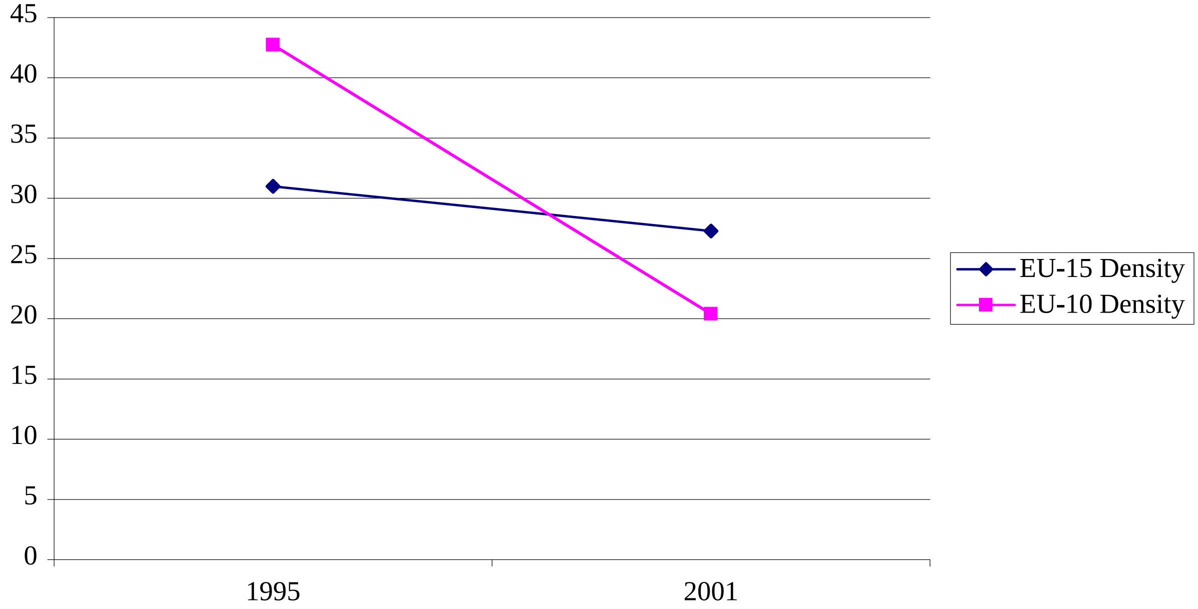
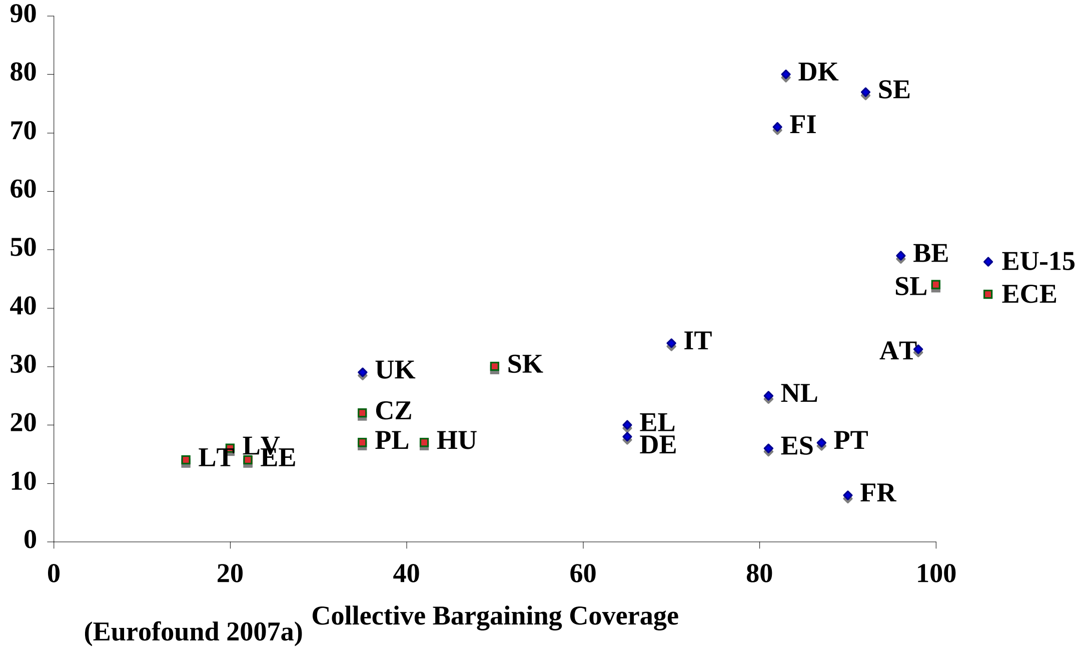
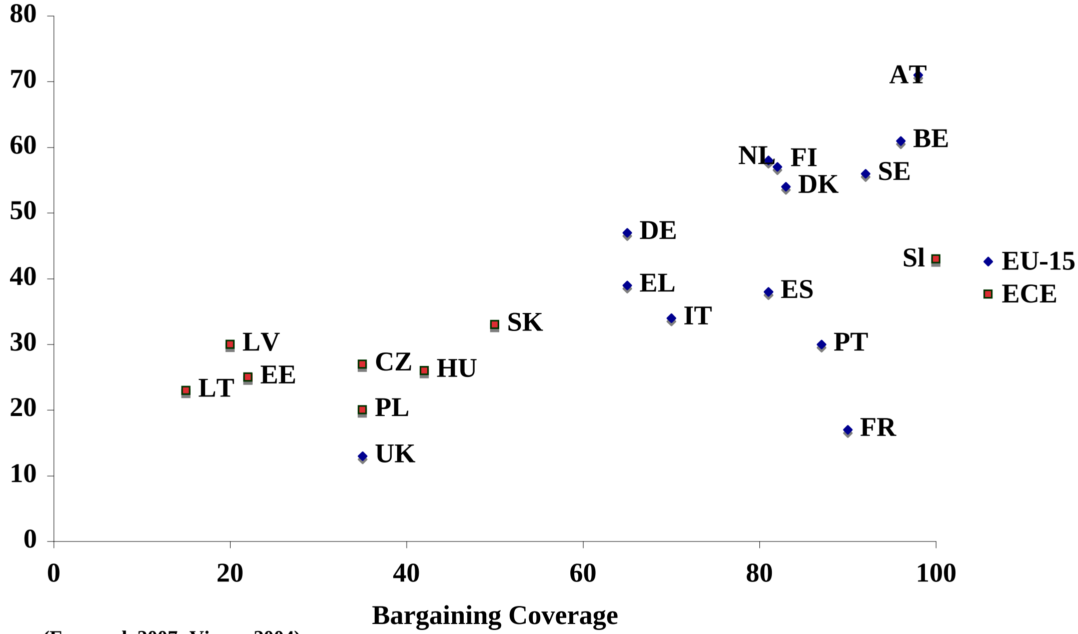


Figure 2:
Union Density and Collective Bargaining Coverage



(Eurofound 2007a)

Figure 3:
Coverage and Centralization of Collective Bargaining



(Euround, 2007; Visser, 2004)

Figure 4:
Employer Organizations, Density

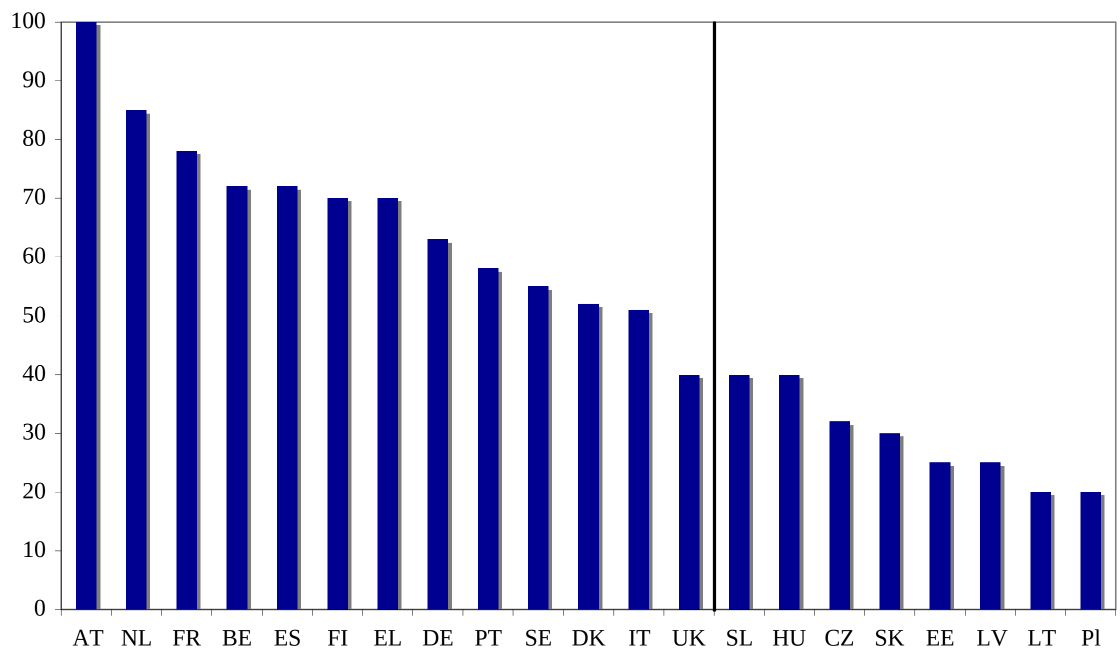
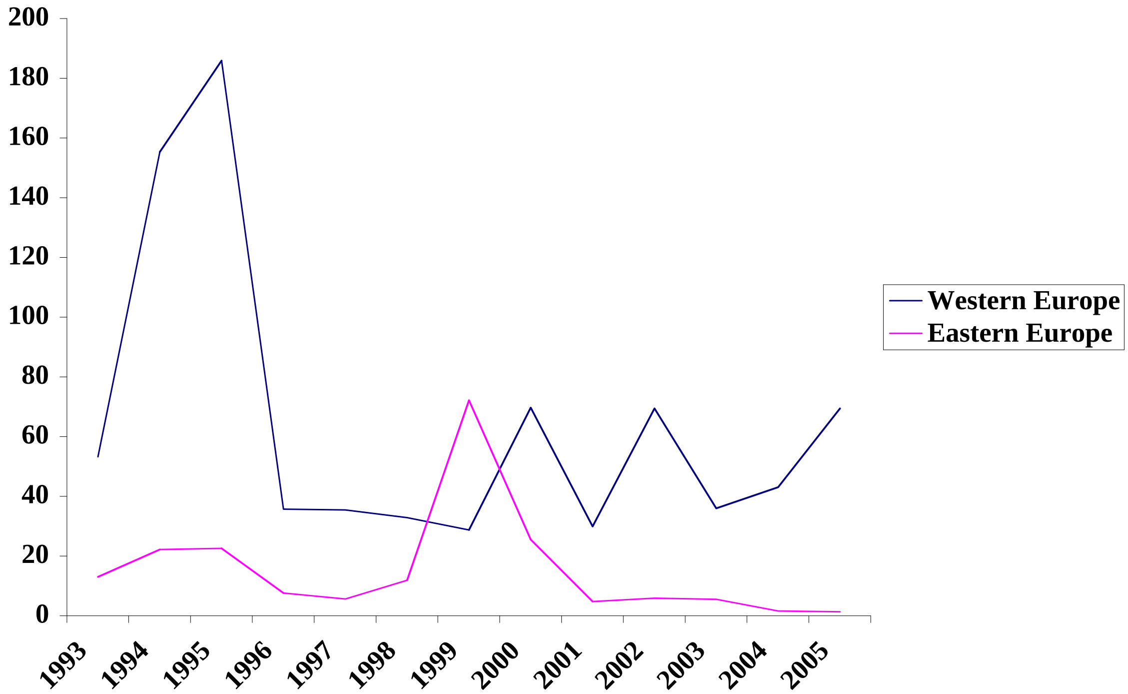
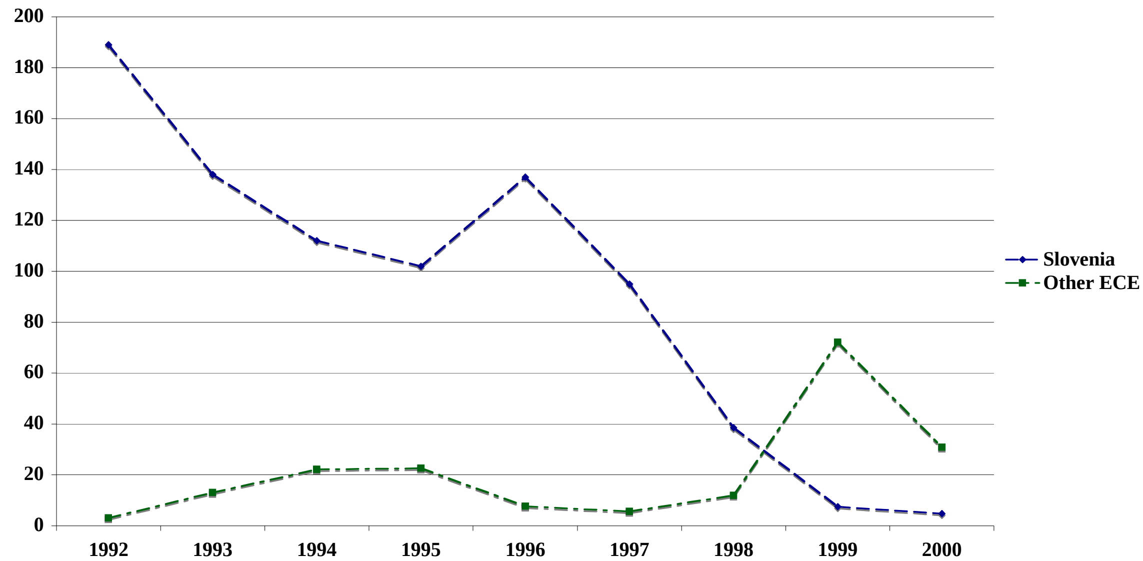


Figure 5:
Changes in Strike Rates by Region and Year



(Laborsta)

Figure 6:
Strike Volume, Slovenia and Other



(Source: Stanojevic, 2003; Laborsta)

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[1] This paper will focus on the ten post-communist countries that have joined the EU, and as a group will be variously referred to here as "East Central Europe," "Eastern Europe," or "new member states." Cyprus and Malta will not be discussed further, since they are both quite small and lack the characteristics of post-communist societies. In terms of the varieties of capitalism, they share some of the liberal attributes of the post-communist societies, but not all, and appear closer to the Mediterranean type of capitalism.

[2] This paper is part of a larger project that will examine the impact of Eastern European labor on the EU and the “European social model.” Given the potential impact of expansion on the existing coordinated economies of Western Europe, the question of the varieties of capitalism is not only of theoretical interest.

[3] For a thorough discussion of these and other criticism of VoC, and one that remains supportive of the VoC perspective, see Hancke et al (2007).

[4] In their critique, Bohle and Greskovits go beyond the VoC framework, and look at a variety of other factors, all of which are non-trivial. Hence I am taking issue with only a piece of their overall argument. Further the goals and hence the comparisons are also different: they examine and explain the diversity within East Central Europe, whereas this paper is more interested in differences within the EU as a whole.

[5] The other spheres that will receive much less attention here are corporate finance and inter-firm relations (Hall and Soskice, 2001, 6-7).

[6] Thus the contention of Kittel that "at the macro level, the differences between wage coordination models in European Union, in particular those of the more peripheral ones, and the [East Central European ones] are minor" (2002: 15) appears incorrect. The content of collective agreements suggests still more differences with the coordinated model of capitalism, since crucial issues of working conditions are often left out, and even pay is not always covered (Vaughan-Whitehead, 2003, pp. 99,-100; Pollert, 2001; Neumann, 2002; Weber, 1997).

[7] Data is missing from some countries for some years. The Eastern European exception is in 1999, which saw a spike of strikes in Romania, the most strike-prone post-Communist country according to this data.

[8] For reasons of space, we will not discuss the dimension of workplace representation. However, the conclusion is largely the same: with the exception of Slovenia, the post-Communist countries appear much closer to the liberal than the coordinated model.

[9] Elsewhere it has been argued that post-communist legacies created weak labor movements (Crowley, 2005) while others point to the impact of globalization (Kubicek, 2004) international financial institutions (Vaughan-Whitehead, 2003) and foreign direct investment (Bohle and Greskovits, 2005). Likely all of these factors have had a significant impact.

[10] For this and much of what follows in this section I am grateful to Miroslav Stanjoevic.

[11] The figures come from Stanojevic (2003). While the inflation of the figures can’t be discounted, Eurofound (2007b) notes the possibility of undercounting, since strikes by other unions are not included.