Article

European Journal of Industrial Relations

European Journal of Industrial Relations
2017, Vol. 23(1) 17–32
© The Author(s) 2017
Reprints and permissions:
sagepub.co.uk/journalsPermissions.nav
DOI: 10.1177/0959680116685490
journals.sagepub.com/home/ejd
SAGE

The financial crisis and changing labour markets in post-transition countries

Maria Lissowska
Szkoła Główna Handlowa w Warszawie, Poland

Abstract
Labour markets in post-transition countries have undergone radical changes, with a shift away from full employment and strong legal protection for employees, though the extent of these changes has differed between countries. I show that the loosening of employment protection went in parallel with growing income inequality and widening poverty levels, which led to a rise in household debt. This enabled additional consumption in the short term, but later deepened recession by hampering consumption. Following the financial crisis, the tendencies to make labour markets more flexible were confirmed and strengthened. This was facilitated by the weakness of trade unions, conditioned by structural changes brought about by transition.

Keywords
Crisis, debt, labour markets, post-transition countries, poverty

Introduction

In assessing the relationship between the financial crisis of 2008 and changes in labour markets and industrial relations in the post-transition countries, one must take account of the historical background. From the beginning of transition in the early 1990s, their governments were encouraged to apply the principles of the 'Washington consensus' (Williamson, 1990), which advocated privatization and easing access for foreign direct investment (FDI). This neoliberal approach regarded unconstrained markets as the means to economic success, and trade unions and employers' organizations were perceived as a distortion and a cause of market failure (Myant and Drahokoupil, 2011: 85). For foreign advisors, the representation of workers in the management of companies before transition was a source of irresponsible demands for wage increases, and rising

Corresponding author:
Maria Lissowska, Szkoła Główna Handlowa w Warszawie, Al. Niepodległości 162, 02-554 Warszawa, Poland.
Email: lisso@sgh.waw.pl

unemployment was welcomed as a means to discipline workers (Sachs and Lipton, 1990: 50).

These advisors neglected other currents of contemporary economics which gave a more positive role to labour. The post-Keynesian approach stresses the economic disadvantages of unemployment (Storm and Naastepad, 2012). For the *régulation* school, the wage–labour nexus is one of the constitutive elements of economic systems (Bertrand, 2002: 80–86). And empirically, there is a broad variety among contemporary market economies: in coordinated European economies like Germany or Scandinavia, developed negotiation schemes are treated as a support for economic development (Thelen, 2013: 71–103). Only in 2005 did authors close to World Bank admit that labour market flexibility should be balanced with security (Rashid et al., 2005: 59–87). The negative consequences of making labour markets more flexible and limiting union representation are still contested.

The change in industrial relations in post-transition countries was by no means the outcome of evolution as in developed market economies. It involved the destruction of the previous system and the implantation of solutions borrowed from abroad, thus skipping stages of development (Hardy, 2014). However, the governments and societies of post-transition countries made different choices as to the shape and speed of transition. Some, like Poland, Czechoslovakia and the Baltic States, opted for shock therapy, while others, like Hungary and Slovenia, pursued more gradual change (Myant and Drahokoupil, 2011: 53–102). This affected the shape of regulation of the labour market.

It is well known that in post-transition countries, protection of employees on the labour market decreased and that trade union membership fell radically, even within the first decade of transition. This helps explain the muted reaction by industrial relations actors, in particular trade unions, to the financial crisis – even though some post-transition countries were particularly hard hit EBRD, 2010).

Below I focus on the speed and differentiation of the changes in the labour markets in post-transition countries, before and after the financial crisis, and on some negative consequences of the rapid reduction in employee protection. I then discuss the link between changes in labour markets and industrial relations on the one hand and growing household debt on the other, as a complementary underpinning of the vulnerability to crisis. I show the role of labour markets and industrial relations after transition in deepening income inequality and the consequent increase in household indebtedness.

I outline the impact of the financial crisis on the evolution of the labour markets and industrial relations in post-transition countries. A reduction in employee protection after 2008 was a general trend in European countries: this was proposed as a better way of returning to positive growth rates. This also occurred to different degrees in post-transition countries. I consider how much this was a response to crisis or whether it was a continuation of existing trends. I also reflect on the role of objective and subjective factors on the evolution of industrial relations. In conclusion, I reflect on the possible factors which may change the balance of power in labour markets and its impact on industrial relations.

Changes in labour markets and industrial relations in post-socialist countries before the financial crisis

Labour markets and industrial relations experienced major change in the countries of Central and Eastern Europe (CEE) in the first decade after transition to the market economy. Under 'socialism', the labour market was rigid: it was difficult to fire employees. The transition to a market economy radically changed the structure of industrial relations. Previously, the principal employer was the state (directly or indirectly, through state-owned enterprises). Thus, associations of employers, such as existed in Western economies, and collective bargaining were not necessary because wage and labour conditions were decided centrally (Cazes and Nesporova, 2003: 188). Trade unions existed and union density was high, but in the context of state dominance their role was limited.

Transition brought about privatization and the inflow of FDI: a major change in the objective situation of trade unions, which lost a large part of their membership base, as they were employees of large companies in the public sector (Bernaciak et al., 2014: 3). Trade union density remained high even in the mid-1990s, between 34 and 60 percent (Cazes and Nesporova, 2003: 120), but later declined faster than in Western countries (and in particular in the private sector, where unions were not welcome).

By 2008, post-socialist states already had lower levels of trade union membership than the 15 'old' EU states. Between 2000 and 2008, Poland, for example, lost 650,000 union members and Romania 424,000. Density fell to 27 percent in Slovenia and as low as 7 percent in Estonia (Visser, 2015). Poland, where the transition to a market economy would have been impossible without the trade union *Solidarność*, saw a great decline in union membership and importance.

Union membership fell also because of subjective factors. Trade unions were involved in political game-playing. Some of them were successors of pre-transition unions, dominated by the party-state. Others, of dissident origins (such as *Solidarność*), supported liberal reforms and neglected the interests of employees. Moreover, there was rivalry between different unions and their fragmentation increased. All this together with political alliances between trade unions and parties made workers distrust the unions (Bernaciak et al., 2014: 3; Gardawski and Meardi, 2010: 71–77).

The most important factor affecting the shape of industrial relations in post-transition countries seems to be a permanent predominance of employers over employees (Gardawski and Meardi, 2010: 83–84). It was underpinned by the change of sectoral composition of economies. Previously predominant heavy industries became bankrupt, and small-scale services and light manufacturing plants (often sub-contracting for foreign brands) developed, exploiting the competitive advantage of low-cost unskilled labour. Foreign investors in CEE countries demanded flexible labour contracts. The affiliates of multinational corporations, contrary to their practices in Western European countries, preferred decentralization of bargaining (European Commission, 2013: 78). Those conditions made it difficult to build a new compromise between employers and employees (Bohle and Greskovits, 2006: 21–23).

Employer organization density rates in the majority of post-transition countries (with the exception of Slovenia, Romania and Bulgaria) were below 40 percent in 2008, while in EU15, it on average exceeded 70 percent. Consequently, collective bargaining had less coverage and was more fragmented and decentralized than in Western Europe (European Commission, 2011: 36).

It should be underlined, however, that the shape of industrial relations in post-transition countries is differentiated, following the more general choices of the shape of market relations. According to Bohle and Greskovits (2012), there are three types of post-transition countries: liberal Baltic and Balkan states (Bulgaria, Romania, Estonia, Latvia, Lithuania), welfarist Visegrád states (the Czech Republic, Hungary, Poland, Slovakia) and corporatist Slovenia. Their differences with respect to industrial relations are underpinned by two factors: the degree of collective organization and the willingness of their governments to institutionalize bargaining. For example, the combination of high levels of both these factors made Slovenian bargaining the most generalized and centralized. Low union density and low organization of employers (with high representation of foreign companies) resulted in mostly fragmented company-level bargaining in the Baltic States (European Commission, 2013: 70).

Changes in the shape of industrial relations following the transition to a market economy went in parallel with changes in labour market institutions and structures. The most important change in the labour market was rapidly increasing unemployment: an outcome both of the recession following political transition and of deep structural changes (the elimination of branches of the economy which were in deficit and in constant need of public support). Between 1990 and 2000, CEE countries passed from the previous situation of full employment to persistent unemployment at the same level or higher than in the EU 15 (where it amounted to 7.9% in 2000). In some countries (Bulgaria, Estonia, Latvia, Lithuania, Poland, Slovakia), there was still double-digit unemployment in 2000, even though the post-transition recession was over. Most post-transition countries also had very high youth unemployment, sometimes exceeding 30 percent. After accession to the EU in 2004, the situation improved, mostly because of emigration to Western countries (Hardy, 2010: 233), and deteriorated only after the financial crisis. On the eve of the crisis, unemployment in post-transition states had fallen on average to 5 percent, similar to other European economies.

The general political attitude in favour of business, together with unemployment and changes in industrial relations, facilitated substantial institutional changes in post-transition labour markets (Lissowska, 2010). Labour protection legislation became much more flexible, at different speeds in particular countries (Cazes and Nesporova, 2003: 31–52, 2007: 18–42).

The OECD employment protection legislation (EPL) index shows that the degree of protection for employees with permanent contracts generally fell between 2000 and 2008 (Table 1). The ratings for post-transition countries in 2008 were relatively close to the EU average. A group of countries possessed stricter formal protections (Czech Republic, Slovenia, Estonia) and another group had weaker protections (Hungary, Slovakia, Poland).

An additional feature of the labour market in post-transition countries is the level of unemployment benefits. The net replacement rate in 2010 differed greatly among post-transition countries: it was above 50 percent in Slovenia, Bulgaria, the Czech Republic, Latvia and Slovakia, but below 50 percent in Estonia, Hungary, Lithuania, Romania, and

Table 1. EPL strictness.

	Permanent workers				Temporary employees			
	2000	2008	2012	2013	2000	2008	2012	2013
CZ	3.31	3.00	2.87	2.87	0.50	1.88	2.13	2.13
EE		2.56	1.74	1.74		2.29	2.29	3.04
HU	2.40	1.82	1.82	1.45	0.63	1.92	2.00	2.00
LV			2.57	2.57			1.79	1.79
LT				2.23				3.21
PL	2.58	2.20	2.20	2.20	0.75	2.33	2.33	2.33
SK	2.91	2.19	1.68	1.81	1.38	2.17	2.29	2.42
SI		2.43	2.39	2.39		2.50	2.50	2.13
PT	4.58	4.17	3.31	3.01	2.81	2.29	2.46	2.33
FR	2.34	2.67	2.60	2.60	3.63	3.75	3.75	3.75
UK	1.26	1.31	1.31	1.18	0.25	0.42	0.54	0.54

Source: OECD data: epr_v1 and ept_v1 for 2000; epr_v3 and ept_v3 for 2008 onwards.
Scale: 0 (*least strict*) to 6 (*most strict*).

only 20 percent in Poland (Esser et al., 2013: 10). The duration of entitlement to unemployment benefits was shorter than in the majority of other EU countries. It was highest in Estonia (50 weeks), 40 weeks in Bulgaria, Latvia and Hungary, and only 24 weeks in the remaining countries.

There are also other features affecting actual levels of flexibility in labour markets (European Commission, 2016), such as frequency of temporary contracts, involuntary part-time or self-employment which constitute disguised employment without legal protection. These structural features did not exist under 'socialism'; they emerged together with the transition to a market economy and the demands of employers (Muffels, 2015: 298–308).

According to Eurostat data, the proportion of temporary workers in the whole labour force (EU15 average 12.3% in 2008) varied from around 2–3 percent in Romania, Estonia, Latvia and Lithuania, 6 percent in the Czech Republic and Hungary, to 10 percent in Croatia, 15 percent in Slovenia and almost 21 percent in Poland. It was thus a structural feature implying higher employment insecurity at least in the latter countries.

The higher proportion of self-employed was a new feature in the labour forces of post-transition countries on the eve of the financial crisis. It was higher in some of them than in the EU15, where it amounted in 2008 to 8.4 percent of the active population. It was at that time particularly high in Romania (15.4%), Poland (12.9%), the Czech Republic (11.0%), Croatia (10.8%) and Slovakia (9.8%). In the remaining countries, it was below 10 percent. It is, however, important to note that this self-employment is generally a form of disguised dependent employment where the 'self-employed' work for one contractor and pay their own social security contributions.

To summarize, labour markets in post-transition countries went through major changes before the financial crisis of 2008. Legislation increasingly weakened employee protection, and industrial relations changed to the detriment of employees. The previous form of cooperation between the state and trade unions, in which most employees were union members, was replaced by a relationship between employers and trade unions characterized by decreasing trade union activity and low employer interest in joining collective organizations. Negotiations became less usual, and insecure forms of work became more common. Trade unions were late in attracting employees on non-standard and precarious contracts and had major difficulties campaigning in some private enterprises (Bernaciak et al., 2014: 22; Hardy, 2010: 223–227). It is, however, true that objective factors like the decrease in unemployment after EU accession and waves of emigration to Western European countries helped trade unions recover some ground and apply more offensive strategies (Gardawski and Meardi, 2010: 83–84; Hardy, 2010: 233–237).

At the start of the crisis, post-transition states had different levels of employee protection, but lower than previously. It is very difficult to assess the overall level of job (and income) protection, because different features do not go hand in hand. Tentatively, Slovenia, the Czech Republic and Estonia could be qualified as having more protection of employees. High EPL levels featured for both permanent and temporary staff (except in the Czech Republic). Those three countries had high replacement ratios for unemployment benefits, or lengthy durations of entitlement, with the exception of the Czech Republic. There were lower levels of self-employment, also with the exception of the Czech Republic, and fewer temporary contracts (except in Slovenia). To a certain extent, the higher levels of employee protection matched trade union density and collective bargaining practices, with the highest levels in 2008 in Slovenia followed by Romania then the Czech Republic. This did not necessarily indicate the strength of trade unions, but rather the more or less prevailing pro-employee political climate and the effectiveness of institutional arrangements for collective negotiations (European Commission, 2011: 36). One exception was Estonia, where high levels of employee protection existed alongside low trade union density. As will be seen, this level of protection was unsustainable.

The impact of labour markets on the crisis: Inequality, insecurity and debt in post-socialist countries

One of the consequences of rapid market-oriented changes in the labour market and the dominance of employers over employees was an increase in income inequality. This contributed to a rise in household debt and the general vulnerability of post-transition countries to financial crisis.

The standard interpretation of financial crisis underlines the role of finance in amplifying business cycles and, recently, the role of securitization (Bernanke et al., 1998; Reinhard and Rogoff, 2011: 1681–1692; Shin, 2009: 323–331). A complementary interpretation of the reasons for the financial crisis of 2008 points to an imbalance between the growing rewards to employers and deficient consumer demand (Lavoie and Stockhammer, 2012: 5–7; Stockhammer, 2012; Tridico, 2012: 25–36). The priority which national policies gave to employers made wages stagnate, income inequality rise and employment more insecure. Those factors by themselves pushed households to borrow. Credits were also offered by sellers who needed more consumer demand.

Table 2. Indicators of inequality and poverty.

	Gini coefficient					Poverty[a]				
	2000	2005	2008	2011	2013	2000	2005	2008	2010	2011
EU15	29.0	29.9	30.8	30.9	30.4	15.0	15.7	16.4	16.3	16.7
NMS12	n.a.	33.2	31.3	30.5	30.6	n.a.	18.9	17.3	16.9	n.a.
BG	25.0	25.0	35.9[b]/	35.0	35.4	14.0	14.0	21.4	20.7	22.2
CZ	n.a.	26.0	24.7	25.2	24.6	n.a.	10.4	9.0	9.0	9.8
EE	36.0	34.1	30.9	31.9	32.9	18.0	18.3	19.5	15.8	17.5
LV	34.0	36.1	37.7	35.1	35.2	16.0	19.2	25.6	21.3	19.1
LT	31.0	36.3	34.0	33.0	34.6	17.0	20.5	20.0	20.2	19.2
HU	26.0	27.6	25.2	26.8	28.0	11.0	13.5	12.4	12.3	13.8
PL	30.0	35.6	32.0	31.1	30.7	16.0	20.5	16.9	17.6	17.7
RO	29.0	31.0	36.0	33.2	34.0	17.0	n.a.	23.4	21.1	22.2
SI	22.0	23.8	23.4	23.8	24.4	11.0	12.2	12.3	12.7	13.6
SK	n.a.	26.2	23.7	25.9	24.2	n.a.	13.3	10.9	12.0	13.0

Source: Eurostat.
[a]Population at risk of poverty after social transfers.
[b]Break in time series in 2006.
Note. NMS12 stands for New Member States who joined the European Union in 2004 and 2007.

In post-transition countries, it is worth underlining that employees only partly benefited from the very high growth in their economies in the years preceding the financial crisis. The proportion of employee remuneration in value added was systematically lower than in EU15, where it was around 56 percent. With the sole exception of Slovenia, where this proportion was above 58 percent, in other post-socialist countries it was typically below 45 percent. Moreover, in some countries, this proportion fell in the late 1990s or early 2000s. Thus, employees could feel their incomes lagging behind the fast growth of their economies.

Income inequality has increased greatly in post-socialist states. According to the World Bank database, the Gini coefficient in 1989 was below 25 percent (except in Hungary where it amounted to 25.1%).[1] During transition, income inequality in these previously egalitarian societies rose quickly to a level similar to or higher than in the EU15. Levels of poverty have also increased in some countries to more than 20 percent of the population (Table 2).

The degree of income inequality was certainly affected by privatization, the growth of private business and inflow of FDI after the transition to a market economy. However, labour market institutions and underdevelopment of industrial relations were related to those changes and important for inequality levels also. In the countries where employee protection was relatively higher and collective bargaining more general (Czech Republic, Slovenia), inequality was lower. Income inequality and poverty were highest in the liberal Baltic and Balkan post-transition countries, where collective bargaining coverage was particularly low or (as in Romania) the legal minimum wage was low compared to average wages (European Commission, 2015: 48). Income inequality in post-transition countries is also related to the level of expenditure on social protection, low in Baltic and Balkan countries.

Table 3. Household indebtedness (debt as percentage of disposable income).

	2001	2008	2011	Change 2001–2008[a]
Eurozone	75.1	95.1	99.0	20.0
CZ	14.2	49.7	56.1	35.4
EE	18.9	91.9	88.3	73.1
LV	9.7	70.8	65.9	61.1
LT	2.7	44.9	40.1	42.2
HU	12.7	62.2	63.4	49.6
PL	11.8	48.0	57.8	36.2
SI	23.3[b]	42.0	46.8	18.7
SK	9.3	35.4	42.5	26.1

Source: Eurostat, data according to ESA95 methodology (changes in classification were subsequently introduced, Data accessed on 29/04/2013).
[a]Percentage points.
[b]2002.

Limited growth of incomes (as compared to gross domestic product (GDP) growth) and growing income inequality in post-transition countries affected the willingness to borrow. Welfare provision was far less than had been expected from transition, and promised by policy-makers. The resulting frustration, and the willingness to spend, even on credit, was higher because of the abundance of previously unavailable consumer goods and the withdrawal of the state from providing some services, in particular housing. Inequality, in the presence of a wide offer of goods, strengthened the demonstration effect of conspicuous consumption (Perugini et al., 2016: 235). Those falling into poverty also came under pressure from needs which could no longer be satisfied.

Research carried out on Polish households has shown that the most common reason for over-indebtedness was pressure of poverty. Credit was used for basic consumption needs (food and clothing), financing of fixed costs (like rent), or else financing previous debts. The youngest and richest households, however, were taking mortgages under pressure of housing requirements (Białowolski, 2014). Thus, both higher income differentiation and lagging income growth may underpin household decisions to borrow.

Higher consumption needs (or demands) by both the poor and more wealthy met the stream of available credits coming from abroad, reflecting the abundance of liquidity in global financial markets in the decade before the financial crisis. Additionally, any European regulation of consumer credits was looser than now, and the lenders could be more aggressive when approaching inexperienced consumers.[2] Transition to a market economy implied big cultural changes and could lead to an excessive propensity to consume and to irresponsible borrowing. As a result, household indebtedness (both consumer and mortgage credit) in post-transition countries grew fast, as Table 3 shows.

Some relationship appears between inequality and growth of indebtedness in those countries for which data are available (Lissowska, 2014). Those where indebtedness increased the most before the crisis (Estonia and Latvia) are among those with the highest income inequality.[3] On the other hand, countries where the growth of indebtedness was the lowest (Slovenia, Slovakia, Czech Republic) are those where incomes are less unequal.

What is meaningful is not just the level of indebtedness compared to income. This was still lower than in Western European countries, where mortgage credits had been used for a long time. It is rather a dramatic rise of credit in comparison to income, and the fact that debt in post-transition countries had a higher proportion of consumer credit than on average in the EU. The rising proportion of this credit (stemming from the contracting of new debt or paying back less than contracted) enabled an additional growth in consumption, above the growth of incomes.

The countries where indebtedness increased the most (Estonia, Latvia and Hungary) enjoyed high and/or very volatile growth in consumption before the crisis. Where growth in indebtedness was lower (Slovenia, Czech Republic, Poland, Slovakia), increases in consumption were also lower and less volatile. The growth of consumption fuelled by credit was unsustainable, as after the crisis these countries which had previously seen the highest impact of debt on consumption growth were also victims of the largest fall in consumption, since not only was credit less available, but also existing debts had to be paid back (Lissowska, 2015).

Changes in labour markets since the crisis

The severity of the financial crisis of 2008 had an immediate effect on labour markets. In the countries hardest hit (Estonia, Latvia and Lithuania), unemployment increased within a year from 5 to 10 percent. In these three countries, however, the unemployment returned to normal (around 5%) by 2015. In other post-transition countries, unemployment increased more gradually, but then remained at higher levels than pre-crisis.

According to OECD and Eurostat data, after the financial crisis the level of protection of employees was reduced in all post-socialist countries, in some (Estonia, Slovakia and Hungary) substantially. This was in line with the general tendency in Europe, where flexibilization of labour was recommended as a means of combating the crisis. Post-transition countries had been forerunners of this trend, which was accelerated by crisis and recession and caused changes in some countries with previously high levels of employee protection such as Estonia. According to the most recent OECD data, for 2013, the Czech Republic and Slovenia, with relatively high trade union density, retained strong employee protection. Estonia can now be qualified as a flexicurity labour market with low EPL indicators, but with medium replacement ratios, lengthy unemployment benefit terms and low numbers of temporary and self-employed workers. OECD data show that employment protection in Latvia and Lithuania is also relatively high, despite the serious impact of the crisis. While some countries followed the trend to lower employee protection, the speed of change was affected by political choices.

The trend to more flexible forms of employment was confirmed to different degrees in particular countries. The proportion of temporary employment increased in Poland, Croatia and Slovenia where it was already high, and rose substantially in the Czech Republic, Hungary and Slovakia where it has become a permanent feature of the labour market. It advanced little, however, in other countries, including those hardest hit by the crisis, the Baltic States and Romania. The pre-crisis pattern of differences between states remained. The data for 2013 suggest a slightly negative connection between the number of workers on temporary contracts and levels of protection. This could suggest that it is more attractive to use temporary contracts where employment protection is weaker. Employers are able to shape employment structures more favourable to themselves, taking into account labour market institutions.

There has been an increase in part-time employment in post-transition countries, although it is generally lower than in the EU15, where it stands at around 20 percent. It has, however, increased by about 2 percentage points in Estonia, Hungary, Slovenia and Slovakia. There have been no major changes in self-employment rates, with pre-crisis differences persisting (a higher proportion in the Czech Republic, Poland, Romania and Slovakia).

It seems that the post-transition countries hardest hit by the crisis (Estonia, Latvia, Lithuania) have not seen the greatest changes in their labour markets. According to the available data, EPL has weakened only in Estonia, and the proportion of temporary contracts and self-employment has not significantly increased in those countries. This suggests that permanent changes both in employment protection and labour market structures were already in place before the crisis, and room for further changes might have been limited.

According to the most recent data (for 2012–2013), trade union density in post-transition countries is now below 15 percent in all CEE countries except Croatia, Slovenia and Romania; in Estonia and Lithuania, it is below 10 percent (Visser, 2015). Membership decline, together with the weakness of institutional arrangements for collective negotiations, locks the unions into a downward trend. This is due to limited resources (in particular in the Baltic states) and to limited support by workers, who do not see themselves being protected.

Unions in CEE countries entered the crisis with a much weaker institutionalization of collective bargaining than in Western Europe. The previously established dominance of employers was strengthened by unemployment and austerity policies. In some countries (Romania, Hungary), political decisions taken under pressure of the crisis directly weakened the employee side of the compromise. While unions became more autonomous from political parties, other factors persisting from the time of transition (inter-union rivalry and fragmentation) still limited their effectiveness (Bernaciak et al., 2014: 17). Collective bargaining coverage in all post-transition countries decreased after 2008, in some countries (Romania, Hungary) substantially.

The period directly after the crisis saw higher levels of activity by the social partners, despite the weak structure of industrial relations. On the one hand, the need to address issues such as wage freezes caused a number of tripartite negotiations and social pacts. Also, measures were collectively agreed at sector and company level in a number of countries (Slovakia, Hungary, Estonia). However, this increase in the activity and role of the social partners was only temporary (European Commission, 2013: 86).

A new phenomenon is a change in form of protest. Instead of strikes in the workplace, which were difficult to organize given the weakness of unions and the dominance of the employers, massive protests have emerged in public spaces, often organized by public sector employees, demanding rights for both workers and citizens. Examples are the protests by Hungarian teachers against government-led reforms, by health workers in Poland and Slovakia, protests against precarious labour contracts in Poland, demonstrations for the rule of law organized by the *Komitet Obrony Demokracji* (KOD, Committee for the Defence of Democracy) in Poland, the campaign for an increase in the minimum wage in Poland (Bernaciak et al., 2014: 24; Greskovits, 2015; Hardy, 2010: 233–237). Interestingly, this trend brought no increase in low voting participation and union and party membership. It seems to be the result of a general discontent among workers and citizens, not only with working conditions, but with the shape of the economy and society as a whole, which does not find more organized channels for expression. Voting for populist and nationalist parties in elections in various countries of the region seems to prove the presence of this general unorganized discontent.

Summary and discussion

The labour markets of previously 'socialist' countries seriously weakened legal protection of employees, in the context of high unemployment and the increasing role of the private sector. The changes in industrial relations went in parallel, with trade union density rapidly falling, employers reticent to build their associations and collective bargaining coverage remaining low. These changes are an illustration of non-evolutionary development, borrowed from elsewhere and skipping intermediary stages, as claimed by Hardy (2014). These changes were expected and desired by the advisors in early transition (Sachs and Lipton, 1990). However, contrary to expectations based on neoliberal literature, the increasing flexibility of labour markets did not radically reduce unemployment. This made some authors call these labour markets 'flexible, but jobless' (Cazes and Nesporova, 2007: 5–7).

It is important to note that major changes in the labour market and industrial relations in post-transition countries had already taken place in the beginning of transition. In this respect, the hypothesis of Bohle and Greskovits (2006) about sectoral underpinning of those changes and their link with inflows of foreign capital, both resulting in employers maintaining power over labour, is very relevant. The speed of change, however, was different between one country and another, and it depended on more subjective factors, such as political preferences in each country.

Besides differences in the formal protection of employees, some post-transition countries reveal structural features effectively proving labour markets to be more flexible (with less protection): the high frequency of employees on temporary contracts (in Slovenia and Poland) or of dependent self-employed (Romania, Poland, Czech Republic). Tentatively, Slovenia and the Czech Republic appear to have more protection of employees (less flexible labour markets). Estonia had high legal protection of employees before the financial crisis and has since undergone a substantial change: it now has a flexicurity labour market, with low EPL indicators, but medium replacement ratios (and long duration) of unemployment benefits, and a low proportion of temporary workers and self-employed.

Neoliberal authors claimed, on the eve of the financial crisis, that the outcomes of changes on the labour markets in post-socialist countries would be mostly positive (Rashid et al., 2005: 61–69). They praised increases in productivity translating into wage growth, the higher discipline of the workforce, the general use of flexible forms of employment which were more convenient for employers and the widening wage differentials enabling rewards for skills and effort. They admitted negative effects like long-term unemployment and rising social marginalization, but claimed that those effects were of little social consequence and could be attenuated by the abolition of minimum wage requirements. As was demonstrated above, labour market changes had deeper negative consequences, which were revealed by the financial crisis.

As for the relationship between the changes in the labour market and the financial crisis, two elements may be observed. First, changes such as the decrease in EPL and the development of more flexible forms of employment, has helped increase income inequality and poverty. Second, the crisis enabled further decreases in employment protection and some proliferation of more flexible forms of employment.

Post-Keynesian authors analysing the financial crisis of 2008 point to an imbalance between the growing rewards for employers and stagnant consumer demand, which had to be filled by household credit. Wage restraint, rising income inequality and increasingly insecure employment pushed households to borrow. In the United States, it has been demonstrated that rising income inequality was linked to higher levels of household debt, in particular before the financial crisis (Cynamon and Fazzari, 2015). The principal explanation is linked to relative income hypothesis formulated by Duesenberry (1949): the consumption of a household depends on its previous maximum consumption and on the consumption of reference households, which poorer households tend to imitate. It is similar to the earlier hypothesis of conspicuous consumption by Veblen (1899: 150). Thus, Perugini et al. (2016: 234–235) claim that income inequality and insecurity of employment in flexible labour markets are the source of household over-indebtedness.

This hypothesis seems to be confirmed for post-transition countries: increasing income inequality was related to labour market institutions and the shape of industrial relations. Where employee protection was higher and collective bargaining more frequent (Czech Republic, Slovenia), the degree of inequality was lower. Income inequality was the highest in liberal Baltic and Balkan post-transition countries, where coverage of collective bargaining and expenditures on social protection were particularly low. Inequality and poverty were, in turn, among the factors influencing household indebtedness, in the context of the abundance of goods, consumerism, pressure of needs (in poor households) and availability of credit. It was demonstrated above that the countries where indebtedness increased most (Estonia and Latvia) are among those with the highest income inequality. Where the growth of indebtedness was lowest are countries (Slovenia, Slovakia, Czech Republic) where incomes are less unequal.

Household debt, with the high proportion of non-mortgage consumer credit which prevailed in post-transition countries, enabled consumption and was partly responsible for fuelling growth in those countries where debt expanded the most; but when credit possibilities disappeared, it contributed to shrinking consumption and deepening recession. The process was similar to that in the United States before the financial crisis.

The crisis reinforced changes in the labour markets in post-transition countries which were already taking place. Employee protection diminished, but not necessarily in the worst affected countries. Unemployment increased because of the crisis, but in the hardest hit countries only temporarily. Country-by-country differences in structural labour market features, such as temporary and self-employment, remained after the crisis. Thus, the trend of making labour markets more flexible, present from the beginning of transition, was strengthened under the impact of the crisis, as in many Western European countries (Bernaciak et al., 2014: 1–2).

While the decline in union density and influence is present in many European countries, the situation in post-socialist countries is specific. First, as claimed by Bohle and Greskovits (2006), the balance of power between labour and capital rapidly changed at the beginning of transition and permanently obstructed any compromise in industrial relations. This is still the situation, as revealed by the unwillingness of employers to build structures enabling collective negotiations. The weakness of trade unions and their limited ability to prove useful in defending the rights of employees hampers growth in union membership and limits their resources. The gap between discontent caused by austerity and the limited voice possibilities of the unions was filled by public demonstrations (Greskovits, 2015).

Conclusion

The situation in the labour markets of post-transition countries is still changing, and not all phenomena are reported in statistics. For example, the implications of recent institutional reconfigurations in Slovenia for industrial relations are not yet fully known. Thus, more research on this region is needed to clarify in what way the trends to date will evolve.

More research is needed on household debt and on its temporary or permanent nature. Income inequality and employment insecurity, its principal underpinnings on the demand side, will probably persist. On the supply side, banks currently bear the burden of non-performing loans and are reticent to lend. But this gap seems to be filled in by aggressive non-bank providers, so the phenomenon of excessive lending may reappear. This may require public intervention.

Different factors may affect the balance of power between labour and capital. Ageing populations and the rejection of immigration may provoke acute labour shortages in the long term. In the opposite direction, in the short term reverse migrations from the United Kingdom after Brexit could increase unemployment and limit room for manoeuvre for the unions.

Another factor changing the situation of labour may be the need for innovation and for higher skills. This would shift the balance of power to the advantage of employees, with a need for more stability (less flexibility of employment) to enable training and to reap its results. This shift may be promoted by public authorities by the tools they could use within the framework of industrial policy.

Finally, populations as a whole and workers in particular may become more assertive. For a while, massive demonstrations and unexpected votes in favour of populist and nationalist parties were proof of frustration. However, unions may make use of this opportunity in their strategies, if they decide to address broader problems in society and not only the interests of their direct members. Such a change of strategy might make unions more attractive for those who are not unionized and seek representation of their interests.

This article has a number of limitations. Some data are not available (as on the EPL of non-OECD members) or out-of-date. Given length constraints, I have only incidentally mentioned the important issues of the evolution of wages and of social security benefits, and have been unable to address the problem of demographic ageing, with its major consequences for the labour market and for the pension systems.

Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author received no financial support for the research, authorship and/or publication of this article.

Notes

1. The data are not fully comparable with those provided by Eurostat, which are not available for these countries before 2000.
2. The Consumer Credit Directive became operational only in 2010 and the Mortgage Credit Directive adopted in 2014 has been operational since March 2016.
3. The data available for Bulgaria, calculated according to a different methodology (ESA2010), are not fully comparable with those in Table 3, but also reveal high growth of indebtedness in this country, which features high income inequality.

References

Bernaciak M, Gumbrell-McCormick R and Hyman R (2014) *Trade Unions in Europe. Innovative Responses to Hard Times*. Berlin: Friedrich Ebert Stiftung. Available at: http://www.etui.org/Publications2/Reports/European-trade-unionism-from-crisis-to-renewal

Bernanke B, Gertler M and Gilchrist S (1998) *The financial accelerator in a quantitative business cycle formation*. NBER working paper 6455. Cambridge, MA: National Bureau of Economic Research.

Bertrand H (2002) The wage-labour nexus and the employment system. In: Boyer R and Saillard Y (eds) *Régulation Theory: The State of the Art*. London: Routledge, pp. 80–86.

Białowolski P (2014) Patterns of debt possession in Poland: A multi-group latent class approach. *Bank i Kredyt* 45(2): 79–104.

Bohle D and Greskovits B (2006) Capitalism without compromise: Strong business and weak labour in Eastern Europe's new transnational industries. *Studies in Comparative International Development* 41(1): 3–25.

Bohle D and Greskovits B (2012) *Capitalist Diversity on Europe's Periphery*. Ithaca, NY: Cornell University Press.

Cazes S and Nesporova A (2003) *Labour Markets in Transition: Balancing Flexibility and Security in Central and Eastern Europe*. Geneva: ILO.

Cazes S and Nesporova A (eds) (2007) *Flexicurity: A Relevant Approach in Central and Eastern Europe*. Geneva: ILO.

Cynamon BZ and Fazzari SM (2015) Inequality, the great recession, and slow recovery. *Cambridge Journal of Economics*. Epub ahead of print 31 March. DOI: 10.1093/cje/bev016.

Duesenberry JS (1949) *Income, Saving and the Theory of Consumer Behavior*. Cambridge, MA: Harvard University Press.

EBRD (2010) *Transition Report 2009: Transition in Crisis?* London: EBRD.

Esser J, Ferrarini T, Nelson K, Palme J and Sjőberg O (2013) *Unemployment Benefits in EU Member States*. Brussels: European Commission.

European Commission (2011) *Industrial Relations in Europe 2010*. Luxembourg: Publications Office of the EU.

European Commission (2013) *Industrial Relations in Europe 2012*. Luxembourg: Publications Office of the EU.

European Commission (2015) *Industrial Relations in Europe 2014*. Luxembourg: Publications Office of the EU.

European Commission (2016) *Making it Happen*. Available at: http://ec.europa.eu/europe2020/making-it-happen/key-areas/index_en.htm

Gardawski J and Meardi G (2010) Keep trying? Polish failures and half-successes in social pacting. In: Pochet P, Keune M and Natali D (eds) *After the Euro and Enlargement: Social Pacts in the EU*. Brussels: ETUI, pp. 69–90.

Greskovits B (2015) Ten years of enlargement and the forces of labour in Central and Eastern Europe. *Transfer* 21(3): 269–284.

Hardy J (2010) *Nowy polski kapitalizm* [New Polish Capitalism]. Warsaw: Książka i Prasa.

Hardy J (2014) Transformation and crisis in Central and Eastern Europe: A combined and uneven development perspective. *Capital & Class* 38(1): 143–155.

Lavoie M and Stockhammer E (2012) *Wage-led Growth: Concept, Theories and Policies*. *ILO* working papers conditions of work and employment series 41, International Labour Organization, Geneva. Available at: http://www.ilo.org/wcmsp5/groups/public/—ed_protect/—protrav/—travail/documents/publication/wcms_192507.pdf

Lissowska M (2010) Evolution of the institutions governing the labour market: The case of Poland. *Rivista Dell'Associatione Rossi-Doria* 4: 33–61.

Lissowska M (2014) Welfare against growth gains in post-transition countries: What are the consequences for stability? *Economics: The Open-Access, Open-Assessment E-Journal* 8: 1–37. Available at: http://dx.doi.org/10.5018/economics-ejournal.ja.2014-13

Lissowska M (2015) Consumption and credit for households in the run-up to crisis and in the efforts to overcome recession. In: Fadda S and Tridico P (eds) *The Economic Crisis in Social and Institutional Context*. London: Routledge, pp. 151–178.

Muffels R (2015) Understanding occupational differences in flexibilisation and mobility patterns in Europe: Do institutions matter? In: Eichhorst W and Marx P (eds) *Non-Standard Employment in Post-Industrial Labour Markets*. Cheltenham: Edward Elgar, pp. 298−323.

Myant M and Drahokoupil J (2011) *Transition Economies: Political Economy in Russia, Eastern Europe, and Central Asia*. Hoboken, NJ: Wiley.

Perugini C, Holscher J and Collie S (2016) Inequality, credit expansion and financial crises. *Cambridge Journal of Economics* 40(1): 227–257.

Rashid M, Rutkowski J and Fretwell D (2005) Labor markets and social policy. In: Barr N (ed.) *Central and Eastern Europe: The Accession and beyond*. Washington, DC: World Bank, pp. 59–87.

Reinhard CM and Rogoff KS (2011) From financial crash to debt crisis. *The American Economic Review* 101(5): 1676–1706.

Sachs J and Lipton D (1990) Poland's economic reform. *Foreign Affairs* 69(3): 47–66.

Shin HS (2009) Securitisation and financial stability. *The Economic Journal* 119: 309–332.

Stockhammer E (2012) *Rising inequality as a root cause of the present crisis*. PERI working paper 282. Amherst, MA: University of Massachusetts Political Economy Research Institute.

Storm S and Naastepad CWM (2012) *Macroeconomics beyond the NAIRU*. Cambridge, MA: Harvard University Press.

Thelen K (2013) Varieties of labour politics in the developed democracies. In: Hall PA and Soskice D (eds) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press, pp. 71–103.

Tridico P (2012) Financial crisis and global imbalances: Its labour market origins and the aftermath. *Cambridge Journal of Economics* 36(1): 17–42.

Veblen T (1899) *The Theory of the Leisure Class: An Economic Study of Institutions*. New York: Macmillan.

Visser J (2015) *ICTWSS: Data Base on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, 1960–2014* (version 5.0). Amsterdam: AIAS. Available at: http://www.uva-aias.net/nl/ictwss

Williamson J (1990) *Latin American Adjustment: How Much Has Happened?* Washington, DC: Institute for International Economics.

Author biography

Maria Lissowska is a professor in the Warsaw School of Economics, Poland. She is also an official of the European Commission, Brussels. This contribution expresses the personal opinions of the author and do not bind in any respect the European Commission.