



International Advice and Labour Market Institutions in South-East Europe

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ABSTRACT This article describes and assesses the impact of evolving labour market institutions after the onset of transition in South-East Europe on economic performance and, at the same time, the impact of international advice on the direction and speed of institutional change. Institutions analysed include employment protection legislation, features of passive and active labour market policies and trade unions and collective bargaining structures. Countries of the region could roughly be divided into two groups – first, covering successor states of former Yugoslavia, with more rigid, and second, covering former centrally planned economies, with more flexible labour market institutions. This divide suggests the importance of institutional tradition. A simple test is undertaken to indicate whether the two groups differ significantly with regard to economic and labour market performance. No firm evidence is found to support the assumption that more flexible labour regimes induce better economic results, contrary to what has been the leading paradigm in the region, promoted by World Bank and IMF. Conditionality is only a partial explanation for their dominant influence; we argue that their agenda is better articulated and communicated than competing agendas of ILO and EU.

KEYWORDS *institutions, international advice, labour, performance*

Introduction

This article describes and assesses the changing labour market institutions in the 1990s and early 2000s in the region of South-East Europe (SEE) as well as the impact of international advice and involvement on the scope and direction of institutional reforms.

The region of South-East Europe is defined here to include the following 10 countries: Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro, Macedonia, Albania, Bulgaria, Romania, Greece and Turkey. The group is extremely diverse; but at least, eight of these countries (except Greece and Turkey) have the transitional experience in common, together with the aspiration to become members of the EU (shared also by Turkey). The focus of our analysis will be on eight transition countries, with Greece and Turkey sometimes used as benchmarks.

The very existence of the region, and even its sub-regions, as something more than a mere geographical reality, has been questioned on various grounds. Indeed, one can easily extend Gligorov et al.'s (2003b) metaphor of a 'history of divergence' not only to refer to SEE lagging heavily behind the rest of Europe during the 20th century, but also to describe the widening developmental differences and political and economic disintegration within the region itself, again well documented by Gligorov et al. (2003a).

Changing Institutions and Regulations in SEE Labour Markets

LABOUR MARKET INSTITUTIONS AND ECONOMIC OUTCOMES

Although it has always been acknowledged that capitalist countries have historically had quite diverse labour market institutions and social policies, only in the last couple of decades have economists shown a profound interest in the impact of labour market institutions on economic outcomes and made attempts to measure that impact. The attention first focused on the impact of unions and bargaining structures on economic performance (e.g. Bruno and Sachs, 1985; Calmfors and Driffil, 1988). More recently, the perspective has been broadened in order to cover a wide spectrum of labour market institutions, including employment protection regulation, active and passive labour market policies, unions and bargaining, payroll taxes, etc.

Gradually two conflicting views of the importance and impact of labour market institutions on economic development and social cohesion emerged and crystallized. One of them could be labelled a 'single peak' or 'World Bank view' (the label coined by Freeman, 2000; paradigmatic examples include for example Forteza and Rama, 2000; World Bank, 2002) and is based on the (explicit or implicit) belief that it is possible to identify a relatively stable and lasting single peak set of labour market institutions that could be recommended as a more or less universal model for market economies, developed and developing alike. Roughly, the more flexible labour market institutions are, the more avenues for economic success are to be found.

An alternative 'multiple peak' view is best described by Freeman (2000), who argues that varieties in the institutional organization of the labour market have identifiable large effects on distribution, but modest hard-to-uncover effects on efficiency. Freeman's view is that capitalism is sufficiently

robust for national differences in labour institutions to persist, opposing the idea that all economies must converge to a single institutional structure. One can notice a historical pattern whereby some capitalist countries do better in the labour market arena than others in some periods (i.e. Japan in the 1970–80s, USA in the 1990s), but then run into problems and give way to other ‘champions’.

In recent years, there have been a number of important studies analysing the links between changing labour market institutions and economic outcomes in developing and/or transition countries. Forteza and Rama (2000) have analysed the relative rigidity of labour markets and its impact on effectiveness of economic reform programs across more than 100 developing countries receiving adjustment credits and loans from the World Bank between 1980 and 1996. Riboud et al. (2002) have attempted to explore to what extent the Central and Eastern European (CEE) countries aspiring to enter the EU adopted labour market institutions comparable to the EU institutions and to what extent these institutions have shaped labour market adjustment in CEE economies during the transition. Cazes (2002) has analysed labour market institutions in nine transition countries in the late 1990s attempting to measure the flexibility of the labour markets of transition countries and shed additional light on the debate on the role of labour market institutions on labour market performance. Svejnar (2001) has, similarly, explored the extent to which insufficient labour market flexibility has been an important factor in causing CEE economies to perform worse than they could, and hence, slowing down their readiness to enter the EU.

The evidence, as almost always, is mixed, and its interpretation depends heavily on, among other things: the criteria used for determining whether there is a single optimum configuration of capitalist labour market institutions; the sample of countries under consideration; the way institutions are defined and measured; and the way the impact of institutions on outcomes is measured. Basically, while Forteza and Rama find that countries with relatively ‘rigid’ labour markets experienced deeper recessions before adjustment and slower recoveries afterwards, other studies mentioned here find no firm evidence that there has been a simple and significant negative link between labour rigidity and economic performance.

In this section we shall first present the main changes in the labour market institutions in SEE and then try to see if there is a clear pattern showing that there could be found a superior approach to labour market reform in the region. Given the complexity and diversity of the region, great problems with data availability and reliability, coupled with an abundance of irregular situations like wars, refugee crises, etc. and other structural breaks across the region during the period under observation (1990–2002), the usual disclaimer is insufficient to describe the entire limitation of our findings. Therefore, we shall attempt here only to set the stage for further research, giving only some preliminary, mostly intuitive hints.

FORCES SHAPING LABOUR MARKET INSTITUTIONS IN SEE

Before reviewing what happened to labour market institutions in the region, it would be useful to briefly list the factors other than international actors that have significantly shaped the direction and dynamics of institutional change after the onset of transition in 1989–90. These factors apparently have further contributed to the diversity of institutional paths and solutions to be found in SEE.

It is possible to distinguish between at least three separate traditions of labour markets in South-East Europe:

1. ex-Yugoslav tradition, with the legacy of self-management system and relatively high incidence of open unemployment, a unique feature among socialist countries;
2. legacy of Soviet-type economies (Albania, Bulgaria, Romania); and,
3. market economy tradition of Greece and Turkey.

Variations are, however, significant even within these three groups. For example, Slovenia unlike other Yugoslav republics did not have experience of high unemployment; Albania pursued its own isolationistic type of communism, as well as Romania to a degree, while Bulgaria had already experimented with self-management during the 1980s; Greece has been a member of the EU for a quarter of a century already, while Turkey's prospects for joining the EU, despite the already attained candidate status, are perhaps slimmer than any of the late coming Western Balkan countries.

Transitional Emergency Generally, labour market institutions tend to be shaped reactively by the policy makers more concerned over key reform areas, which rarely include as a core element labour market reform.

An example of this type of 'reactive' driving force could be found in at least three ex-communist countries in the region, namely Romania, Bulgaria and Albania, which had to urgently create the system of unemployment benefits to cope with hitherto unknown phenomenon of unemployment in 1990–91.

Conflict and Post-Conflict Emergency Another similar type of emergency creation of labour market institutions is related to regulation that has been introduced in response to an emergency situation caused by the direct or indirect impact of regional conflicts. For example, Serbia introduced the legislation in mid-1992 practically banning the firing of employees during the sanctions of UN. The legislation in fact stayed in place for most of the 1990s. In a similar fashion, both entities in Bosnia and Herzegovina employed 'waiting lists' (for paid leave) instead of outright firing until 2000. Privileges and/or special programmes for war veterans were introduced in Croatia, Bosnia and Herzegovina, Serbia and more recently Kosovo. Active

labour market projects aimed at refugees have often been supported by international NGOs, etc.

Economic Crisis Emergency Some countries experienced the outbursts of serious economic crises, most frequently in the form of acute monetary instability. Wage freezing measures have been introduced to fight hyperinflation threats in Serbia (1992–4), Bulgaria (1996–7) and Turkey (2000–1). Sometimes, like in Turkey during the last monetary crisis, even the changes in labour legislation were introduced in order to encourage foreign investors in the short term (Salihoglu, 2002).

EVOLUTION OF LABOUR MARKET INSTITUTIONS IN SEE

Employment Protection Employment protection legislation (EPL) basically refers to the rules that govern individual job contracts with regard to hiring and firing. Workers in SEE's eight transition countries (hereafter T8) enjoyed a very high degree of employment protection in their jobs (in former Yugoslavia this was called 'job monopoly'). This high degree of employment protection led to extreme labour rigidity and inefficient labour allocation.

One of the key requirements at the start of transition was to facilitate workforce adjustments in order to dismantle 'job monopoly' as a necessary precondition for restructuring and privatization of state owned firms. In SEE T8, one can typically identify two waves of EPL reforms. Reforms in the early 1990s dismantled the most extreme forms of job monopoly, but fell short of a full-blown flexibility package. Reforms in the late 1990s/early 2000s typically went a step further, bringing EPL on a par with OECD or EU countries.

A cursory look at the Table 1 reveals Bulgaria and Romania as the champions of flexibility and Croatia and Slovenia (until 2002) championing the 'rigidity' camp. Greece and especially Turkey seem to have EPL above the regional average.

Another interesting feature related to EPL is the generosity of maternity leave regulation. The T8 traditionally had more generous regulation than the developed countries, and this particular feature seems to be preserved, again with Romania and Bulgaria leading the 'flexibility camp'.

Passive Labour Market Policies for the Unemployed Unemployment compensation and social security benefit schemes, the two pillars of passive labour market policies, have increasingly become less generous throughout the T8. This tendency can be captured by the evolution of the level and the duration of the benefit, as well as the eligibility rules. In all T8 countries, except Albania, the level of unemployment benefits was based on fixed replacement rates of previous wages. All T8 countries imposed a rather low maximum level for benefits and did not introduce indexation of benefits for inflation.

The coverage rate is the highest in Romania and Slovenia, the lowest in

TABLE I *Employment protection legislation for regular employment, latest regulation*

	<i>Reg. procedural inconveniences</i>		<i>Notice and severance pay for no-fault individual dismissals by tenure categories</i>						<i>Difficulty of dismissal</i>	
	<i>Procedures</i>	<i>Delay to start of notice</i>	<i>Notice period after</i>			<i>Severance pay after</i>			<i>Definition of unfair dismissal</i>	<i>Unfair dismissal compensation at 20 years of tenure</i>
			<i>9 months</i>	<i>4 years</i>	<i>20 years</i>	<i>9 months</i>	<i>4 years</i>	<i>20 years</i>		
			<i>Scale 0 to 3 days</i>			<i>Scale 0 to 3 months</i>				
Albania	–	–	–	–	–	–	–	–	–	–
Bulgaria	–	1.0	1.0	1.0	1.0	1.0	1.0	1.0	–	–
BiH	–	–	–	–	–	–	–	–	–	–
Federation	1.0	0.0	0.25–0.5	0.25–0.5	0.25–0.5	0.0	1.3	6.7	0.0	–
R. Srpska	1.0	0.0	1.0	1.0	1.0	0.0	1.3	6.7	0.0	–
Croatia	3.0	15.0	1.0	3.0	6.0	0.0	2.0	10.0	1.0	–
Greece	2.0	1.0	0.5	1.5	8.0	0.3	1.0	5.8	0.5	15.8
Macedonia	1.0	30.0	1.0	–	6.0	0.0	2.0	10.0	2.0	–
Romania	1.0	–	–	0.5–1.0	–	3.0	3.0	3.0	–	–
SCG	1.0	0.0	1.0	1.0	1.0	0.0	2.0	5.0	1.0	–
Slovenia	2.0	9.0	6.0	6.0	6.0	0.0	2.0	10.0	2.5	10.0
Since 2002	2.0	0.0	1.0	2.0	5.0	0.0	0.8	10.0	1.0	–
Turkey	2.0	1.0	1.0	2.0	2.0	0.0	4.0	20.0	0.0	26.0
EU	1.7	12.3	0.9	1.9	4.9	0.1	0.7	3.7	0.8	16.9

Sources: 1. Bosnia: Law on Labor, Official Gazette of the federation, No. 43/99; 2. Slovenia: Law on Labor Relation, 1991 and 2002; 3. Romania and Macedonia: Labor code; 4. Greece and Turkey: OECD, *Employment Outlook* (1999); 5. Bulgaria: Jan Rutkowski, Why is unemployment so high in Bulgaria; 6. Rep. Srpska: Law on Labor, Official Gazette of the Rep. Srpska, No. 38/2000.

TABLE 2 *Maternity leave regulation*

<i>Country</i>	<i>Length of leave in days</i>	<i>% of wage</i>
Albania	365	85
Bulgaria	120–180	100
Romania	112	50–94
Bosnia and Herzegovina	365	–
Croatia	210	–
FYRO Macedonia	270 ¹	–
Serbia and Montenegro ²	365	100
Slovenia	365 ³	100
Greece	112	75
Turkey	84	66.7
Planned economies average	209	85.66
Former Yugoslavia average	315	100
Market economies average	98	70.85
SEE average	239.8	83.12
SE average ⁴	117.16	86.95
EU average	113.13	91.6

Sources: 1. Apesma Professional Women's Network (from Maternity Leave ILO Convention No. 183, June 2001, International Confederation of Free Trade Union, the Public Services International and Education International), for Bulgaria, Romania, Greece and Turkey; 2. The magazine of the International Labour Organisation: *World of Work*, No. 24, April 1998, 'Maternity Protection at Work', for Croatia; 3. International Monetary Fund, FYROM – Enhanced Structural Adjustment Facility Medium-Term Economic and Financial Policy Framework Paper, 1998–2000, for FYROM; 4. UN Economic and Social Council, Statistical Commission and Economic Commission for Europe, Conference of European Statisticians, 43rd Plenary Session, Geneva, 12–15 June 1995, for Albania; 5. European Population Conference 2001 in Helsinki, Theme G: Population and Policies, Preferences in Slovenia versus Reality in Europe: The Case of Parental Leave and Child Benefit, for Slovenia.

Notes: ¹Also women who choose to return to work early are paid 50% of the remaining unused benefits; ²For Kosovo, UNMIK Regulation No. 2001/27 (entered into force on 8 October 2001) on Essential Labour Law in Kosovo entitles female employees to at least 12 weeks of paid maternity leave. Source: *Southeastern Europe Business Brief*, Vol. 6.41; 26 October 2001;

³Out of which 3 months (105 days) can be used exclusively by the mother, while the remaining nine months can be used either by the mother or by the father; ⁴For the purpose of this analysis, South Europe consists of Portugal, Spain, France, Italy, Greece and Turkey.

Serbia and Montenegro. The periods of eligibility are the highest in Slovenia, Serbia and Croatia. The replacement ratios are higher in former Yugoslav countries than in Albania, Bulgaria and Romania.

Trade Unions and Collective Bargaining In the course of the last 13 years trade unions in T8 have changed for the better, from institutions of Communist party control ('transmission mechanisms') and distributors of fringe benefits to becoming representatives of workers' economic interests. Their bargaining power, however, has declined, both at the national and at the company level, especially in the private sector. This has been followed by the

TABLE 3 *Unemployment insurance system*

Country	Benefit replacement rules ¹ (%)	Maximum benefit duration in months
Albania	—	—
Bulgaria	60 ²	4–12 ³
Romania	70 ⁴	6–12
Bosnia and Herzegovina ⁵	30–40 (35–40)	6–12 (3–12)
Croatia	100 ⁶	2.5–10.25 ⁷
FYRO Macedonia	50 ⁸	3–18
Serbia ⁹ and Montenegro	60 ¹⁰ (65) ¹¹	3–24 ¹² (3–12)
Slovenia	63 ¹³	3–24
Planned economies average	65	8.5
Former Yugoslavia average	61.6	10.35
SEE average	62.57	9.82
CEE average	55	—
SE average ¹⁴	62.5	20.13
EU average ¹⁵	60	21.23

Sources: 1. OECD, *Employment Outlook* (1996, 1999), for Slovenia, CEE and EU average; 2. Labour Market in the Post-war Bosnia and Herzegovina, *How to Encourage Business to Create Jobs and Increase Worker Mobility*, World Bank (2002) for Bosnia and Herzegovina; 3. *Addressing Emergency: Welfare State Reform in South Eastern Europe*, Friedrich Ebert Stiftung, December 2001, for the rest.

Notes: ¹Initial benefit divided by previously earned income; ²Of the average monthly total labour remuneration over the previous nine months. The compensation cannot be less than 80% and not more than 150% of the minimum labour remuneration for the country; ³Depending on the person's previous employment record. The maximum duration of 1 year corresponds to 25 years of service; ⁴As to minimum wage; ⁵In brackets for Republika Srpska; ⁶Of the national average salary in the last 3 months preceding unemployment, subject to the minimum of 20% of the national average salary, and the maximum being determined by the Minister of Labor and approved by the Minister of Finance; ⁷Depending on the length of service. Workers with 9 months to 2 years of the service are entitled for the minimum 78 days, while, for instance, workers with long years of service (30 for women and 35 for men) have a right to an open-ended unemployment benefit, i.e. until they find a new job or acquire retirement rights; ⁸Of the average annual wages for the first 12 months, followed by 40% for the following 6 months; ⁹For Kosovo, unemployment benefits' current structure and coverage are not applicable; ¹⁰Of last 6 months salary average for the first 3 months, and for the remaining period benefit is 50% of previous wage. At the same time, benefit ceiling was introduced at the level of 80% average wage, while the floor will be set at the level of the minimum wage by the changes in the Law on Employment and Unemployment Insurance in 2001; ¹¹Of the base pay for the simplest work in Montenegro; ¹²Only employees with over 20 years of work experience are entitled to receive compensation for more than a year, while the maximum of 24 months is received by those older than 55 years and with work experience over 25 years; ¹³Seventy percent in the first 3 months, and 60% after this period. This amount cannot be lower than the guaranteed minimum income (reduced for taxes and contributions), and not higher than three times the lowest benefit; ¹⁴For the purpose of this analysis, South Europe consists of Portugal, Spain, France and Italy; ¹⁵Does not include Greece and Luxembourg.

TABLE 4 *Features of the unemployment insurance system*

Country	Coverage rate (% of unemployed receiving insurance benefits)	Passive policies (% of GDP)	Active policies (% of GDP)	Total (active + passive)
Albania (1999)	—	—	—	1.2 (5.2) ¹
Bulgaria (2001)	20	—	0.35 ²	(23.6 + 76.4) ³
Romania (2001)	69	—	0.1 ⁴	3.5 ⁵
Bosnia and Herzegovina	13.125 ⁶	—	0.08	—
Croatia (2000)	17	—	—	0.4 ⁷
Serbia and Montenegro (2002)	8.4	—	—	1.4 ⁸
Slovenia (1998)	32.6	0.89	0.83	1.72
Greece	—	0.5	0.35	0.85
Planned economies average	44.5	—	0.225	—
Former Yugoslavia average	20.90	0.89	0.455	1.345
Market economies average	—	0.5	0.35	0.85
SEE average	30.345	0.695	0.342	1.037
CEE average	—	0.68	0.18	0.86
SE average ⁹	—	1.046	0.892	1.938
EU average	—	1.73	1.16	2.89

Sources: 1. *Addressing Emergency: Welfare State Reform in South Eastern Europe*, Friedrich Ebert Stiftung (December 2001); 2. *Employment and Labour-Market Policy in South Eastern Europe*, Friedrich Ebert Stiftung (December 2002); 3. EBRD, *Transition Report* (1999); 4. OECD, *Employment Outlook* (1999); 5. 'Labour Market in the Postwar Bosnia and Herzegovina: How to Encourage Business to Create Jobs and Increase Worker Mobility', World Bank, 2002.

Notes: ¹Percentage of the State budget; ²In current prices; ³The proportion between active and passive policies in 2001; ⁴Percentage of the State budget; ⁵In total for the period 1997–2000; ⁶Refers to the Federation; ⁷In 1998; ⁸Of the projected Serbian budget in 2003; ⁹For the purpose of this analysis, South Europe consists of Portugal, Spain, France, Italy and Greece.

sharp decline in unionization rate, which regionally stands at around two fifths of the salaried workers. Even this modest rate can be disputed on the basis of some survey data, which show a drastic discrepancy between the official and survey density in Bulgaria (51.4 percent and 22.2 percent, respectively) and less pronounced but still significant in Romania, with 40.7 percent and 31.4 percent, respectively (Crowley, 2002).

It is interesting to note in inter-regional comparisons shown in Table 5 that otherwise more 'rigid' Southern European countries have the lowest level of union density, and that CEE and EU regions have higher unionization rates than SEE.

Another feature that is frequently taken as an indicator of 'rigidity' is the number of ratified ILO conventions, especially those related to the exercise of collective rights of workers. Here an interesting reversal can be noticed, with SEE and CEE regions being the most 'flexible' with the lowest average

TABLE 5 *Unionization rate and coverage – SEE vs. CEE, EU and SE*

<i>Country</i>	<i>Union density (% of salaried workers that belong to a union)</i>	<i>Union coverage index¹</i>
SEE average	39.55	2.66
CEE average	49.1	2.66
SE average ²	25.9	3
EU average	44.4	2.85

Source: International Labour Organisation (1997) *World Labour Report 1997–98. Industrial Relations, Democracy and Social Stability*, except for Croatia (*Multinational Monitor*, May 2002, Vol. 23, No. 5, *Central and Eastern European Workers Struggle to Hold their Ground in Hard Economic Times*).

Notes: ¹Less than 25% of salaried workers that are covered by collective agreements – 1; between 26% and 69% are covered – 2; 70% or more are covered – 3; ²For the purpose of this analysis, South Europe consists of Portugal, Spain, France, Italy, Greece and Turkey.

number of ILO conventions signed, while Southern European countries are clearly the ‘most rigid’. On the other hand, a key convention, Convention No. 87, has been ratified across the board. Still, Albania, Bulgaria and Macedonia seem to be rather sceptical when it comes to ratifying ILO conventions related to the freedom of association and regulating industrial relations.

However, one should be careful drawing the conclusions based on the labour codes themselves. The degree of labour market flexibility/rigidity depends primarily on how labour market regulations are implemented in practice. It is the enforcement of conventions and regulations that really matters.

LABOUR MARKET INSTITUTIONS AND OUTCOMES – SEARCHING FOR LINKS

In this section we look at the simple paths of adjustment of a couple of main economic indicators that could have been affected by the design of labour market institutions and try to identify the patterns that could indicate that labour ‘flexibility’ and ‘rigidity’ indeed matter throughout the region.

Output Adjustment The dynamics of GDP shows a very clear U-shape pattern. The crisis was deeper in former Yugoslavia than in former planned economies, even with the exclusion of war-torn Bosnia and Herzegovina. Slovenia and Albania appear to be the two most impressive stories when it comes to the recovery of output; however, they hardly seem to have much in common at least with regard to the design of labour market institutions.

Employment Adjustment Here the adjustment throughout the region has predominantly taken L instead of U shape, with Slovenia being the only country to show significant signs of recovery. At the other end, Macedonia and Serbia show an almost uninterrupted downward trend in employment,

TABLE 6 *Number of ratified ILO conventions*

<i>Country</i>	<i>Ratified fundamental Conventions as of 3 June 2003¹</i>	<i>Total number of ratified ILO Conventions</i>	<i>Convention No. 87</i>	<i>Ratified ILO Conventions on freedom of association and industrial relations² as of 1 June 2003</i>
Albania	8	33	X	2
Bulgaria	8	86	X	2
Romania	8	54	X	4
Bosnia and Herzegovina	8	68	X	3
Croatia	8	57	X	3
FYRO Macedonia	7	–	X	2
Serbia and Montenegro	6	66	X	3
Slovenia	8	73	X	3
Greece	8	71	X	6
Turkey	8	40	X	4
Planned economies average	8	57.66	X	2.66
Former Yugoslavia average	7.4	66	X	2.8
Market economies average	8	55.5	X	5
SEE average	7.7	60.88	100	3.2
CEE average	7.83	58.63	100	3.75
SE average ³	8	100.6	100	4.66
EU average	8	88.06	100	5

Source: International Labour Organisation (June, 2003), *Official Website*, <http://www.ilo.org>

Notes: ¹Eight fundamental Conventions are the following: C.29 and C.105 (forced labour), C.87 and C.98 (freedom of association), C.100 and C.111 (discrimination), C.138 and C.182 (child labour); ²These are the following: C.87 (right to organize), C.98 (collective bargaining), C.135 (workers' representatives), C.141 (rural workers), C.151 (public service), C.154 (collective bargaining); ³For the purpose of this analysis, South Europe consists of Portugal, Spain, France, Italy and Greece.

with the decline in Macedonia being much deeper. A rather similar shape can be found for Romania and Bulgaria, two countries that have been identified as the more flexible in T8.

Unemployment Adjustment Unemployment dynamics shows more diversity in shapes than output and employment dynamics. While the three former planned economies show U pattern, ex Yugoslav countries show inverted or rather mirrored L pattern, but this mostly due to Serbia and Montenegro, which is an obvious late starter in transition. Taken country by country, apart from Serbia and Montenegro, the three countries that between 1996 and 2000 experienced the greatest relative increase in unemployment are Romania, Bulgaria and Croatia.

Impact of Labour Market Institutions on Economic Outcomes in SEE We found no convincing indication that what is labelled 'labour market rigidity' is

TABLE 7 *GDP in transition*

<i>Country</i>	<i>GDP pc 2002 (€)</i>	<i>Real GDP 1994 (1990 = 100)</i>	<i>Real GDP 2002 (1990 = 100)</i>
Albania	1,590	79.50	123.60
Bulgaria	2,125	85.30	87.90
Romania	2,161	83.90	92.30
Bosnia and Herzegovina	1,475	—	—
Croatia	5,368	67.70	92.90
FYRO Macedonia	1,925	79.70	87.30
Serbia and Montenegro	1,679	45.20	52.80
Slovenia	11,208 ¹	93.40	127.40
Planned economies average	1,959	82.90	101.17
Former Yugoslavia average	4,331	71.50	90.10
SEE average	3,441	76.39	94.84

Sources: 1. The Vienna Institute for International Economic Studies, 'Prospects for Further South-Eastern EU Enlargement: From Divergence to Convergence?', in V. Gligorov, M. Holzner and M. Landesmann, *WIIW Research Reports*, No. 296, June 2003; 2. United Nations Economic Commission for Europe, *Economic Survey of Europe*, 2002, No. 2.

Note: ¹Projected GDP for 2002.

harmful for growth and employment in the SEE context. And we could not firmly conclude the opposite, just on the basis of the fact that the comparatively more 'rigid' countries like Slovenia and Croatia have generally performed better during the last 12 years than comparatively more 'flexible' countries like Bulgaria and Romania. On the same note, the studies typically find more flexible labour markets in the former Soviet Union than in much more successful and advanced Central European countries, but this alone is not enough to conclude that flexibility is bad.

TABLE 8 *Employment in transition economies (1990 = 100)*

<i>Country</i>	<i>1990</i>	<i>1994</i>	<i>2000</i>
Albania	100	81.50	74.90
Bulgaria	100	79.10	71.80
Romania	100	92.20	77.60
Bosnia and Herzegovina	—	—	—
Croatia	100	77.10	77.60
FYRO Macedonia	100	78.10	61.50
Serbia and Montenegro	100	89.30	82.60
Slovenia	100	82.50	84.50
Planned economies average	100	84.27	74.77
Former Yugoslavia average	100	81.75	76.55
SEE average	100	82.83	75.79

Source: United Nations Economic Commission for Europe, *Economic Survey of Europe*, 2002, No. 2.

TABLE 9 *Unemployment dynamics (1992 = 100)*

<i>Country</i>	<i>1996</i>	<i>2000</i>
Albania	44	61
Bulgaria	82	117
Romania	79	128
Bosnia and Herzegovina	—	—
Croatia	76	114
FYRO Macedonia	115	116
Serbia and Montenegro ¹	111	173
Slovenia	88	87
Planned economies average	68.33	102
Former Yugoslavia average	97.5	122.5
SEE average	85	113.71

Sources: 1. OECD, *Employment Outlook* (1999, 2002); 2. EBRD, *Transition Report* (1999); 3. United Nations Economic Commission for Europe, *Economic Survey of Europe*, 2002, No. 2.

Note: ¹1993 = 100.

Our findings, however tentative, seem to confirm Freeman's assertion that the distributional impact of institutional arrangements should be of more concern for the policy makers compared to developmental impact. However, as shown in Cazes (2002), more rigidity does not automatically mean more distributional equity.

Using Freeman's words, the countries in the region should 'find what fits', given the outside constraints, such as requirements of various international players (to be analysed in more detail in the following sections), but also, and even more importantly, take into account the idiosyncrasies of their labour markets.

Labour market institutions in general, and South-East Europe is no exception, are embedded into wider society much more firmly than most other economic institutions. Below the measurable layer of advance notices, maternity leaves, unemployment benefits rules, union density rates, etc., one will find different notions of fairness and justice, work ethics, collective action models, gift exchange patterns, and other highly (often even locally) idiosyncratic behavioural models. Any study of South-Eastern European labour markets attempting to be more than a mere statistical (or, at best, econometric) exercise would have to deal with their sociological and anthropological foundations.

Advice of International Actors

In this section we shall analyse the involvement and interplay of international organizations and agencies in shaping labour market institutions in the region. Key international players to be found globally and regionally – World Bank and IMF, ILO, UNDP, European Union, Council of Europe,

main bilateral development agencies such as the United States Agency for International Development (USAID), Department for International Development (DFID), Styrelsen för Internationellt Utvecklingssamarbete (SIDA), etc. – dominated the scene in South-East Europe as well, assisted, especially in emergency and post-conflict situations, by the leading international NGOs.

The nature and significance of international advice in general, as well as of particular organizations, evolved over time, depending on various internal and external circumstances in the countries of the region. Painting the picture with a very broad brush, one may attempt to distinguish between the involvement where the support for labour market reform appeared hand in hand with the post-conflict and reconstruction support, e.g. in the countries of the Western Balkans, and the involvement under more regular circumstances, as in Bulgaria, Romania and Slovenia. And for the latter group perhaps the recognition of their EU candidate status could be considered as an important watershed, with the apparent strengthening of European influence over institutional developments in the domain of labour and employment.

It is clear, however, that such generalizations are of very limited use – the real impact should be assessed case by case, and careful analysis would probably show that not only ideologies and policies matter, but also the key personalities involved in the advice on the side of international agencies, as well as the idiosyncrasies of those involved in the institution building on the side of the beneficiary countries – the approach very successfully employed by for example Deacon et al. (1997) and Stubbs (2001). This approach, of course, is well beyond the scope of our analysis.

WORLD BANK AND IMF

International financial organizations influenced the creation of labour market institutions in South-East Europe by very profoundly insisting on typical Washington consensus fare while negotiating structural adjustment programmes in the early 1990s with the regional governments, at least with those stable enough to qualify for such negotiations. Social policy reforms have generally been negotiated as part of the conditionality agreements struck with developing countries, and the role of these policies has grown over time, reflecting an evolution in views about their importance (Kapstein and Milanović, 2003). The importance and desirability of labour market flexibility have been emphasized again more recently by the World Bank and IMF in the course of preparation of poverty reduction strategies for some of the countries of Western Balkans in the early 2000s.

A recent paradigmatic and regionally comprehensive report on Labour Market in Postwar Bosnia and Herzegovina (World Bank, 2002) is appropriate to comprehend the World Bank approach to the post-conflict countries such as former Yugoslav republics, and its arguments for the need to further enhance labour market flexibility.

The key issues underlined throughout the report are labour mobility and job creation. The main message of the report is that the remaining rigidities need to be further addressed. The need for the increase of labour mobility along with wage flexibility is defended somewhat innovatively, insisting that the two main positive effects that more institutional flexibility tends to create are, first, efficiency and, second and more surprisingly, equity.

By default, in flexible labour markets, labour is allocated better, workers are changing their jobs and they are being redeployed in more productive firms/sectors, at the same time leaving the less productive ones, which thus leads to efficiency growth. Also, in a dynamic flexible market, business incentives to create jobs are higher.

When it comes to equity, the negative consequences of 'dual labour markets' created by rigidities are emphasized. It means that on one hand, the formal sector is protected well, while on the other hand the informal one is not, which then increases wage inequality. Static labour markets also put barriers up to the youngsters who are trying to enter the market, to the re-entrants who are predominately women, and to the unemployed in general.

This argument contains an implicit criticism toward a typical ILO approach favouring the interests of unionized and skilled incumbent workers affected by the reforms and redeployment programmes. Moreover, it apparently borrows from the critical voices from within the World Bank claiming that more attention should be paid toward the excluded and poor, since the social policy reforms tend to be targeted toward the politically more influential 'striving class' (e.g. Kapstein and Milanović, 2003).

More flexible labour laws and labour market programmes have been encouraged time and again by the World Bank across the region. Reporting from a trip through Croatia, Romania and Bulgaria, Johannes Linn, the then Vice President for Europe and Central Asia of the World Bank, and the then Country Director for South Central Europe, Andrew Vorkink, published a commentary in the Croatian daily '*Jutarnji list*' on 11 January 2003 with the following enthusiastic message:

More flexible labor laws and labor market programs adopted by governments and supported by the World Bank have had some success ... But creating more flexible labor laws which lead to increased employment opportunities and encourage firms to hire more workers is a challenge that all three countries face. Countries in the EU which have the most flexible labor laws have had the highest growth rates in recent years – those with protective labor policies have some of the lowest growth. The message is clear. (Linn and Vorkink, 2003)

The message of the World Bank is remarkably clear, but the facts behind it are not – as shown earlier, the issue of impact of labour market institutions on growth is still very much contested, and the evidence available for EU and OECD countries is by no means straightforward either (cf. Baker et al., 2002).

EUROPEAN UNION

Repeatedly confirming the objective of the fullest possible integration of the countries of South-East Europe, the EU has played an active role by influencing legislative activity and administrative organization in the aspiring countries of the region.

Countries not belonging to the troublesome 'Western Balkans' sub-region have advanced more rapidly toward the EU, with Slovenia obtaining full membership in 2004, and Bulgaria and Romania hoping for the same by 2007. Within the Western Balkans, Croatia and Macedonia have their Stabilization and Association Agreements (SAA) already signed, with Albania and Serbia and Montenegro soon to enter the SAA negotiations, and Bosnia and Herzegovina apparently lagging behind.

The closer a country is to the EU, the stricter are the requirements with regard to alignment with the 'hard' and 'soft' *acquis* related to Social Policy and Employment. It should be noted here, however, that the scope of hard *acquis* (containing binding provisions) in this domain is still relatively modest, covering the areas of health and safety at work, equal opportunities for men and women, coordination of social security schemes, labelling of tobacco products and provisions related to social dialogue.

The EU influence could be seen as a countervailing force vis-a-vis 'Washington consensus' institutions. Despite the fact that most studies show that the 'Eastern enlargement' will not adversely affect EU labour markets (e.g. Boeri and Bruecker, 2001), the EU is still very much concerned over 'social dumping' in its neighbourhood, or more precisely in its future eastern member countries. It is therefore interested to support, and indeed require the introduction of measures aimed at the improvement of labour standards, especially with regards to health and safety at work and non-discrimination, as well as the enhancement of social safety nets in South-East Europe.

As to the general ideology in the field, the European Employment Strategy was launched in 1997 at the Luxembourg Summit, and further developed at the Lisbon European Council in March 2000. The EU promoted its goals as 'to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' (*EU Online Official Website EUROPA*, http://europa.eu.int/comm/employment_social/employment_strategy/index_en.htm). The strategy was designed to enable the Union to regain the conditions for full employment and to strengthen cohesion by 2010. The Barcelona Council (March 2002) confirmed the strategy and called for its reinforcement. Four pillars of the EES are: employability; entrepreneurship and job creation; adaptability; and equal opportunities. The Commission proposes three basic objectives:

- full employment, in line with the Lisbon strategy targets;
- quality and productivity at work, reflecting the need for better jobs

in a knowledge-based economy and the need to promote EU competitiveness;

- cohesion and an inclusive labour market, so as to reduce existing disparities in access to the labour market.

Monitoring goes through the National Action Plans. The EES initiated a new working method at EU level, which was to become known as the 'open method of coordination'. It is based on five key principles: subsidiarity, convergence, management by objectives, country surveillance and an integrated approach.

Starting with 1997, the EC has assessed annually each applicant country's progress with regard to Social Policy and Employment. The issues regularly screened include: developments in the social dialogue field; health and safety legislation; equal opportunities; general approximation in labour legislation; social security schemes and social security rights of migrant workers; employment and labour market programmes to combat unemployment; and institutional capacities and financial resources for the enforcement of legislation. The recommendations for improvement are rather general, but still represent a powerful instrument to direct the development of labour market institutions in candidate countries (Arandarenko, 2003).

COUNCIL OF EUROPE

The Council of Europe exercised very little influence with regard to creation of labour market institutions in the region. Its role could be seen as subsidiary and complementary to the role of the much more influential EU.

In terms of general ideology, the European Social Charter is a CoE Treaty that sets out rights and freedoms, and establishes a supervisory mechanism guaranteeing their respect by the Member States. The rights are guaranteed to all the individuals, and refer to: housing, education, employment, social protection, movement of persons and non-discrimination. Member States are obliged to implement the Charter into their national law, and more important implement it in practice. The following organizations are entitled to lodge complaints: (1) the European Trade Union Confederation (ETUC), Union of Industrial and Employers' Confederations of Europe (UNICE) and the International Organisation of Employers (IOE); (2) non-governmental organizations (NGOs) with consultative status with the Council of Europe which are on a list drawn up for this purpose by the Governmental Committee; (3) employers' organizations and trade unions in the country concerned and in the case of states that have also agreed to this; (4) national NGOs.

Table 10 shows the countries of SEE status with regard to the signature and ratification of the Charter.

TABLE 10 *Member States of the Council of Europe and the European Social Charter, as of 23 June 2003*

<i>Member States</i>	<i>Signatures¹</i>	<i>Ratifications</i>	<i>Acceptance of the collective complaints procedure</i>
Albania	21/09/98	14/11/02	—
Bosnia and Herzegovina	—	—	—
Bulgaria	21/09/98	07/06/00	07/06/00
Croatia	08/03/99	26/02/03	26/02/03
Romania	14/05/97	07/05/99	—
SCG	—	—	—
Slovenia	11/10/97	07/05/99	07/05/99
FYRO Macedonia	05/05/98		
Turkey	18/10/61	24/11/89	

Source: Council of Europe (September, 2003), *Official Website*, <http://www.coe.int>

Note: ¹The dates in bold correspond to the dates of signature or ratification of the 1961 Charter; the other dates correspond to the signature or ratification of the 1996 revised Charter.

INTERNATIONAL LABOUR OFFICE

The ILO has been rather active in the region, although keeping a relatively low profile in comparison to other international organizations. Its Budapest based Central and Eastern European regional office (ILO-CEET, recently renamed ILO-SRO) played a major role in capacity building of social partners. It has also contributed very much to promoting the notion of 'tripartism' in wage bargaining and facilitating social dialogue in the region. Naturally, the ILO more often found itself allying with the EU than with the World Bank and the IMF.

With regard to its general 'ideology', the Global Employment Agenda has recently been introduced by the ILO, with the main aim to place employment at the heart of economic and social policies that will contribute to social justice and development of a more socially equal and economically sustainable world. The seven pillars of the Agenda include: promoting decent work as a productive factor; promoting entrepreneurship and productive investment; promoting employability and adaptability; making the future more socially and environmentally sustainable; assisting the working poor more directly by generating decent and productive employment; ending discrimination in the labour market; building a new macroeconomic environment for employment/growth.

Analysing the content of the ILO-SRO newsletter for 2002, where the major activities in the region have been listed, we found clear indications that the main regional focus of the ILO is on (1) social protection, (2) social dialogue (especially at the intermediate sectoral level in the EU accession countries where dialogue remained rather weak), and (3) employment.

The ILO also assisted in facilitating joint experts' meetings of workers' and employers' organizations from SEE. In Zagreb (30–1 January 2002), the creation of new and decent jobs has been stated as the most important priority of economic and social development for SEE countries. The social partners of SEE also gave a clear message to the governments to stimulate regional integration further. Training activities for trade unions, employer organizations and civil servants have also been organized across the region.

A CASE STUDY: INTERNATIONAL ADVICE AND THE REFORM OF LABOUR MARKET INSTITUTIONS IN SERBIA AND MONTENEGRO¹

The direction of labour market reform in Yugoslavia after the democratic change in October 2000 could best be understood from the Letter of Intent that the government of the Federal Republic of Yugoslavia (FRY) sent to the IMF in early 2001, describing the policies that were to be implemented in the context of its request for financial support from the IMF.

Envisaged labour market reform should improve the business environment and facilitate economic restructuring ... The new legislation will: (a) guarantee core labor standards, including the freedom of association and participation in collective bargaining for employees and employers; (b) streamline and reduce minimum statutory benefits for employment termination and unemployment; (c) liberalize hiring procedures and allow for flexibility in the modality of employment (fixed-term contracts, part-time employment, seasonal, and casual labor); (d) liberalize wage determination, except for the minimum wage; and (e) bring statutory minimum leave and maternity benefits to levels affordable to the majority of the economy. (<http://www.imf.org/external/np/loi/2001/yug/01/>)

Careful wording of this paragraph suggests that, despite the rejection of any property over this letter, the IMF has generously helped the FRY government to articulate its intentions. At first sight, it may look as if point (a) is meant to pay at least lip service to the ILO agenda, while points (b) through (e) are accommodating to the conditions of the IMF. However, as it turned out with the passage of the Labor Code half a year thereafter, the real meaning of point (a) was to remove the mandatory nature of collective agreements, and therefore to free employers' hands during the process of economic restructuring.

The World Bank has had close cooperation with the Serbian authorities in the labour area. Following analytical work of the World Bank team, work on a new Labor Code was supported financially during its development phase and then politically during its passage. Despite this decisive move toward flexibility, a lot is yet to be done, according to a recent Bank's program document on a proposed Social Sector Adjustment Credit. It has been noted in this document that:

Existing legislation on unemployment benefits and programs for the unemployed is ill-suited to the emerging challenges of a restructuring economy. The major

problems in existing legislation include: (i) the level and duration of unemployment benefits, which on both counts are very high by regional standards. If not addressed, this would create not only a large contingent fiscal liability, but also continue disincentives to return to work for the unemployed; (ii) the range and relative priority of different active labor market programs. (World Bank, International Development Association [IDA], 2003)

The draft Law on Employment and Insurance in Case of Unemployment, again very much supported and praised by the World Bank, is expected to bring more flexibility through:

(i) revised UB entitlements with respect to duration and level, bringing Serbia more into line with regional competitors and reducing the contingent fiscal liability from future lay-offs; (ii) inclusion of more cost effective active labor market interventions, such as job search skill training programs, job clubs, assistance in self employment, and job fairs; (iii) a more appropriate definition of unemployment, in order to help bring 'official' unemployment levels more into line with survey-based data; (iv) revised rules on obligations of the unemployed to take work or participate in employment programs offered by the Labor Market Bureau, which reduce the ability of registered unemployed people to refuse work of which they are capable, and (v), for the first time, allows private employment agencies in the delivery of services. (World Bank, IDA, 2003)

It is clear that the role of IFIs, especially the World Bank, has been decisive in the reform of labour market institutions in Serbia after 2000. Other actors have played secondary, but still constructive and important roles.

The UNDP in particular has established its role as a useful coordinator of international support in the labour reform field, without trying to impose its own agenda. Through its Capacity Building Fund it supported a small advisory unit working with the Ministry of Labor and Employment and helped in rebuilding the institutional structure and improving organization within the Ministry and labour services in general. It has also taken a coordinating role in the project called 'Beautiful Serbia' (a replica of an earlier Bulgarian project), expected to start early in 2004, financed by Austria, Greece, Canada, and with matching funds coming from the City of Belgrade, the UNDP and Ministry of Labor. The UNDP also supported a series of regional meetings aimed at development of social dialogue.

The involvement of the EU in labour market reform has been modest at best. In 2002 the Labor Minister paid a visit to the European Commission and had a meeting with the then Commissioner Ana Diamantopoulou, in order to gather information about the European Employment Strategy. Given the current non-status of Serbia in relation to the EU, little concrete cooperation is possible. Still, the EU funded Policy and Legal Advice Center produced a number of reports and assessments of draft laws in the employment and social policy area attempting to raise awareness of

European standards and future requirements. Member countries of the EU, notably Sweden and the UK have disbursed and pledged bi-lateral assistance in programmes aimed at institution building.

The ILO's presence has been rather weak, apart from the emphasis on development of social dialogue. The ILO played a leading role at one point in mid-2001 in convincing quarrelling social partners to re-launch a major tripartite institution, the Economic-Social Council. The ILO has also been engaged in legislation monitoring, but basically accepting the back seat driver role in the reform of a fundamental Labor Code. True, it has been more active in reforming labour inspection services and advising on health and safety law.

INTERPLAY AND INTERACTION OF INTERNATIONAL ACTORS – BETWEEN CONFLICT AND RIVALRY AND COORDINATION AND COOPERATION

The World Bank and the ILO have long since developed competing agendas with regard to the optimal set of labour market institutions, which was reflected in the competing advice to the countries undertaking economic and institutional reforms, including the SEE countries in the last dozen of years or so. Despite the efforts to coordinate the advisory efforts through joint policy cooperation within the new regional initiatives, the consensus of international actors hardly can be achieved in the foreseeable future.

There are at least two fundamental reasons for lasting tension between the various international organizations engaged in the reform of labour market institutions. First, their stakeholders are different and their interests more often conflicting than aligned. Second, the empirical evidence on the impact of institutions on outcome is inconclusive, as also hinted at here in Section 2, allowing for conflicting interpretations and policy recommendations. In this complex field, one can often encounter strange reversals of argumentation, whereby one camp uses the findings of another and reinterprets them in its own favour. For example, economists at the IMF have, to the delight of ILO experts, found that 'institutions that make unemployment more attractive can speed up the process of job reallocation between low-productivity jobs in the public sector and high-productivity jobs in the emerging private sector' (Garibaldi and Brixiova, 1998). On the other hand, World Bank economists have claimed that World Bank labour policy is fully conducive to achieving equity on the labour market, pointing at a 'decent work' policy of the ILO as a major source of labour market distortions that leaves the majority of workers in developing countries virtually unprotected, while protecting only privileged 'worker aristocracy'.

This is not to say that the cooperation between the ILO and World Bank is in the end doomed to failure. In fact, some very important joint programmes have been realized, both globally and regionally, and the relations have been improving since the mid-1990s. The ILO has obtained

observer status within the Annual Meetings of the IMF and World Bank, and has the right to give its opinion on the draft reports of the IMF World Economic Outlook since 1995.

The ILO has also promoted international cooperation with the IMF/World Bank, and managed to push forward a 'decent work agenda into an integrated approach to economic and social policies, particularly in view of the key role that the institutions play in the multilateral development process',² making globalization work for the benefit of all. Technical assistance and training are one of the most successful examples of cooperation among the international agencies in general, as exemplified by the cooperation between the World Bank Institute and the International Training Centre of the ILO in Turin.

The first steps of WB-ILO cooperation efforts in the SEE region started in the second half of the 1990s, although without any major breakthroughs. Post-war Bosnia and the joint contribution to the establishment of post-war Kosovo's four-pillar structure are illustrative examples. ILO cooperation with Bretton Woods Institutions has been strengthened within the Poverty Reduction Strategy Paper (PRSP) and Comprehensive Development Framework (CDF) processes. Nevertheless, that cooperation is still underdeveloped in the CEE/SEE region.

In the early 1990s the EU, although rather influential in Slovenia, Bulgaria and Romania, had not been playing an important role in the institution building in the region of the Western Balkans, since future membership was not on the horizon. Only later, with the political stabilization, the EU's impact started to rise. However, it remained limited, mainly because of the predominantly soft *acquis communautaire* in the area of social policy and employment. In addition, social matters were not at all prioritized in the Europe Agreements, and later within the SAA. As an illustration, it has been noted that the SAA Agreements for Croatia and Macedonia contain absolutely identical wording on Social Cooperation, despite the obvious differences in the scope and nature of social and employment problems in the two countries. A more sophisticated approach would probably have resulted in a slightly differentiated strategy of social cooperation, with an emphasis on concerted strategy for Macedonia, where the levels of poverty and unemployment are far more severe (Arandarenko, 2003).

The most representative example of international cooperation in SEE is without doubt the Stability Pact (SP) for South-East Europe. The SP was created with all major international organizations involved and already existing regional initiatives incorporated.³

The EC and World Bank have given a special mandate to coordinate a comprehensive regional approach under the SP. To that end, a joint office of the EC and World Bank was established. However, social and labour issues have not been given priority and, for example, have not been mentioned

among the SP's six core objectives for 2003 (*Stability Pact Official Website*, October 2003, <http://www.stabilitypact.org/about/core-objectives.doc>).

Despite the wide representation of international actors, criticism has been expressed that 'the Working table on Economic Restructuring, Development, and Co-operation appears unduly influenced by macro-economic considerations based on an agenda produced by the World Bank' (Stubbs, 2001).

Conclusion

Evidence on the development of labour market institutions in SEE as well as case studies dealing with the international advice in the region (cf. Deacon et al., 1997; Stubbs, 2001) indicate that the international financial institutions are in general more successful than other organizations in promoting their reform agenda in the field of labour and employment.

Why is this so? An obvious answer would be because they have a more powerful instrument to promote their agenda – conditionality. Although this is apparently true, this is not the whole answer. In terms of articulation and elaboration – not necessarily in terms of content and prescriptions – the World Bank's agenda is simply superior to others. World Bank messages are simple, but clear, as shown above in paradigmatic Linn's editorial – flexibility is good, rigidity is bad – and easily translated into workable action programmes.

The ILO and to a degree the EU have agendas that are inherently inconsistent, reflecting an attempt typical of complex organizations to rather mechanically reconcile interests of their various stakeholders. This is particularly true of the ILO, with its in-built structural inconsistencies. No wonder that the ILO is championing the promotion of concepts that are of somewhat oxymoronic, i.e. self-contradictory nature, such as 'flexicurity', or of limited practical use, such as decent work.

Despite their weaknesses, any optimistic scenario for the region of South-East Europe should assume that the influence of the ILO and especially the EU in the reform of labour institutions will become more important in the future, if the region is indeed to step inside the European social space.

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NOTES

1. This section is informed by the interview with Mr Jovan Protic, UNDP-CBF MOLE Project manager. The author remains solely responsible for the facts and opinions expressed in it.
2. ILO Governing Body, Committee on Employment and Social Policy, 'ILO Relations with the Bretton Woods Institutions', Geneva, November 2000.
3. The SP partners are the following: the countries of the region (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Moldova, Romania and Serbia and Montenegro); the European Union Member States and the European Commission; non EU-members of the G8 (USA, Canada, Japan and Russia); other countries (Czech Republic, Hungary, Norway, Poland, Slovakia, Slovenia, Switzerland, Turkey); international organizations (UN, OSCE, Council of Europe, UNHCR, NATO, OECD); international financial institutions (World Bank, International Monetary Fund [IMF], European Bank for Reconstruction and Development [EBRD], European Investment Bank [EIB], Council of Europe Development Bank [CEB]); regional initiatives (Black Sea Economic Co-operation [BSEC], Central European Initiative [CEI], South East European Co-operative Initiative [SECI] and South East Europe Co-operation Process [SEEC]).

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RÉSUMÉ

L'aide Internationale et les Institutions du Marché du Travail en Europe du Sud-Est

Cet article décrit et évalue l'impact, en termes de performances économiques, des institutions du marché du travail en cours d'évolution après le début de la transition en Europe du Sud-Est, et en même temps, l'impact de l'aide internationale sur la direction et la vitesse des changements institutionnels. Les institutions analysées comprennent la législation pour la protection du travail, des caractéristiques des politiques passives et actives du marché du travail et des syndicats, ainsi que des structures pour une convention collective de travail. On pourrait séparer les pays de la région en approximativement deux groupes – le premier englobant les états nés de l'ancienne Yougoslavie, dont les institutions du marché du travail sont plus rigides, et le deuxième englobant les anciennes économies dirigées, dont les institutions sont plus souples. Cette division indique l'importance de la tradition institutionnelle. On effectue un simple test afin de déterminer si les deux groupes diffèrent considérablement en ce qui concerne les performances économiques et celles du marché du travail. Contrairement à ce qui a été le paradigme principal dans la région, promu par la Banque Mondiale et le FMI, on ne trouve aucune preuve solide pour soutenir la supposition que des régimes de travail plus souples entraînent de meilleurs résultats économiques. Le concept de conditionnalité est seulement une explication partielle de leur influence dominante; nous soutenons que leur programme est mieux articulé et communiqué que les programmes concurrents de l'OIT et l'UE.

RESUMEN

Consejos Internacionales e Instituciones del Mercado Laboral en Europa del Sudeste

Este artículo describe y valora el impacto de las instituciones del mercado laboral en desarrollo, después del comienzo de la transición en Europa del Sudeste, sobre el rendimiento económico, y, a la vez, el efecto de los consejos internacionales sobre la dirección y la rapidez de la transformación institucional. Las instituciones que han sido analizadas incluyen: legislación para la protección del trabajo, características de sindicatos y políticas del mercado laboral pasivas y activas, y estructuras de negociación del convenio colectivo. Se puede dividir en términos generales los países de la región en dos grupos: el primero incluyendo los estados nacidos de la antigua Yugoslavia, que tienen instituciones del mercado laboral más rigurosas, y el segundo incluyendo las antiguas economías de planificación central, que tienen instituciones más flexibles. Esta división parece indicar la importancia de la tradición institucional. Se ha hecho una prueba sencilla para indicar si los dos grupos se diferencian de forma significativa en lo que se refiere al rendimiento económico y a los resultados del mercado laboral. No se ha encontrado pruebas seguras para sostener la teoría de que los regímenes laborales más flexibles producen mejores resultados económicos, en contra de lo que ha sido el paradigma principal en la región, fomentado por el Banco Mundial y la FMI. El concepto de la condicionalidad es sólo una explicación parcial por su influencia dominante; sostenemos que su programa se expresa y se comunica mejor que los programas conflictivos de la OIT y la UE.

BIOGRAPHICAL NOTE

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