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The Influence of Trade Unions on Pension Reform in Romania and Hungary: The Role of Ideas, Interests and Institutions in Policy-Making

Monica BUCURENCIU¹

Abstract:

Although both Romania and Hungary have inherited pay-as-you-go defined benefit (PAYG-DB) pensions systems, they have both moved towards a three-pillar pensions system, in which PAYG-DB becomes just one of three pillars together with the mandatory and the voluntary private pension funds. Trade unions have had an important influence on pension reform in both countries. The analysis of pension reform in Hungary and Romania brings evidence that trade unions' influence on policy-making is not uniform, but it is shaped by the international policy discourse, by the institutional setting, by their relationship with other policy actors, by their organisational culture and even material inheritance.

Key words: pension reform, labour unions, organisational culture, expertise, Romania, Hungary

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Abbreviations:

CES – Economic and Social Council (Romanian original name: Consiliul Economic si Social)

CNPAS – National House of Pensions and Other Social Security Rights (Romanian original name: Casa Nationala de Pensii si alte Drepturi de asigurari sociale)

CNSLR-Fratia – National Confederation of Romanian Free Trade Unions – Brotherhood (Romanian original name: Confederatia Nationala a Sindicatelor Libere din Romania – Fratia)

CSSPP – The Commission for the Supervision of the Private Pensions System (the Romanian original name: Comisia pentru Supravegherea Sistemului de Pensii Private)

EU – European Union

FIDESZ – Federation of Young Democrats

IRC – (The Hungarian) Interest Reconciliation Committee

IMF – International Monetary Fund

MSZOSZ – The abbreviation of the Hungarian name of National Association of Hungarian Trade Unions

PAYG-DB – pay-as-you-go defined benefit

PIF – (The Hungarian) Pension Insurance Fund

PSD – (Romanian) Social Democratic Party

WB – World Bank

Introduction

Pensions systems all around the world are changing. “And if there is a common theme to that change, i.e. more private funded pensions and cuts in future unfunded public provision, the starting points, the rate of change and the size of the change are dramatically different across different countries.” (Disney, Johnson, 2001:1).

Both Romania and Hungary are living examples of the trend towards more private funded pensions mentioned by Disney and Johnson. Although they have both inherited pay-as-you-go defined benefit (PAYG-DB) pensions systems², they have both moved towards a three-pillar pensions system, in which PAYG-DB becomes just one of three pillars together with the mandatory and the voluntary private pension funds. The three-pillar system is made up of: a first pillar that is a state managed, pay-as-you-go system; a second pillar that is a privately managed, fully funded defined contribution system without minimum benefit guarantees and a third pillar that is also privately managed, fully-funded, DC (defined contribution) system without minimum benefit guarantees (participation is voluntary) (Gomulka, 2002).

When the formerly Communist countries of Eastern Europe began their transformation into market-oriented economies, reforms in social programmes were only minor parts of the adjustment agenda (Nelson, 2001, p.135). The focus was on macroeconomic stabilization, on opening the economy and on privatizing former state enterprises (Nelson, 2001).

Despite this focus on macro-economic stabilization policies or maybe as natural complement of this, serious concerns about reforming the pensions systems started to exist in both Romania and Hungary ever since the beginning of the 1990's. However, Romania found it more difficult than Hungary to actually adopt any important changes until 2004: while Hungary implemented the reform more than 10 years ago, Romania is still struggling. Hungary adopted radical changes in its pensions system in mid-1997. After 7 years, Romania designed a similar set of reforms in two packages, one passed in 2004 and the second in 2007.

A great deal of analysis has focused on the substance of the Hungarian reform and the merits and drawbacks of specific design components

² The pay-as-you-go pension system is a system that finances benefits for retired workers in a given year entirely by contributions or taxes paid by currently employed workers. The present economically active generations pay for the ones that preceded them.

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(Nelson, 2001); the policy-making *process* and its *actors* have been analysed to a much lesser extent³. On the other hand, there has been no thorough analysis of the Romanian pension reform (neither in terms of design, nor policy-making process), mostly because it is still an ongoing process. Although it may be much too early to grasp the entire reform process in Romania, I think it is still possible to offer a valid and reliable account of how different actors generally shaped the reform. For reasons of comparability, in my analysis, I will mostly focus on the process of negotiation among different actors *before* the actual implementation of changes.

The role of trade unions in shaping the pension reform in Romania and Hungary is not very well documented in the literature - and therefore will be the central focus of analysis. Furthermore, there are several theories on policy-making that have the tendency of assuming that trade unions' interests and actions are quite unitary, predictable and shaped mostly by the constant search of trade unions' leaders to acquire more social benefits for those whom they are representing. (Korpi, 1989) Trade unions are too often portrayed as organisations that manifest an intrinsic opposition to the interests of organised business or right wing political parties and politicians (Korpi, 1989). I hope that the analysis of the two case studies will show that reality is more complex than that.

Although the primary focus of my analysis will be trade unions, an examination of other policy-making actors will be undertaken. Without an integrated approach to the policy-making process, it would be very hard to grasp the role of a specific actor. It is hard to understand the role of unions in shaping the reform without understanding the role of organised business, international organisations or political parties. The environment in which an actor shapes its preferences and actions is shaped by the preferences and actions of all other involved actors. It would, thus, become impossible to understand the role of any actor in isolation from the others.

It is not possible to understand policy-making without understanding what drives the actors involved in the process. Is it material interests or ideas? Can one separate the two in a meaningful way in the first place? If ideas *do* matter, in what *way* do they matter? Do they matter because they provide actors with cognitive and normative frameworks? Are they just instruments used in

³ Although, this paper is concerned with the process (rather than the programme) of pensions systems reform in Romania and Hungary, "this distinction, however useful it may be, represents an oversimplification; it is impossible in practice to make a distinction between reform as a programme and reform as an implementation process" (Hausner, 2001, p. 231).

rational ways in order to maximise benefits and satisfy interests? Are they cooperation tools among actors with different interests? In other words, what is the relationship between ideas and interests and what relevance does it have for policy-making and especially for policy-change? One of the purposes of this paper will be to argue that the analysis of the pension policy-making process in Romania and Hungary provides further reasons for combining, rather than separating, the rational choice and ideational theories on policy-making.

The factors that determine policy actors' preferences and actions will inevitably have an impact on how we understand the process of policy-making as well. Thus, in the final part of my analysis, I will also try to identify the implications of my findings for some of the theories on policy-making. I will mainly focus on Weir and Skocpol's (1985) theory and on Orenstein's later refinement of it (2000). The paper will argue Orenstein's theory is better suited in accounting for the policy-making process of pension reform in Romania and Hungary, but that further refinements of his theory are also possible.

Comparability and Reason for Comparison

Firstly, it can be argued that Romania and Hungary had a common "inheritance" in terms of pensions system: they both had former communist PAYG-DB systems which experienced very similar problems during the economic transition period (Preda, 2004; Calugaru, Pop, 2004):

- a) Both in Romania and in Hungary, the black market for labour grew rapidly, one of the main reasons being *the cost* of labour force;
- b) There was also an increase of the unemployment rate and a decrease in the number of contributors to the public pension system;
- c) Both in Romania and Hungary, due to political involvement, a great number of exceptions – pensioners with high pensions – were created, generating a higher pressure on the PAYG system;
- d) Another 'challenge' that the both countries faced was reversing the consequences of previous policies that made early retirement very easy, with no evident penalties; the early retirements were initially encouraged in order to avoid an increase of the unemployment rate;
- e) Freelancers were not included in any public pension system;
- f) Both countries also experienced a lack of transparency, mainly concerning the calculation of benefits/ pensions and the exceptions;

Secondly, the two countries have been influenced by the same international organisations: the World Bank, the IMF and the EU (at a later stage and in a more indirect way) (Nelson, 2001, Orenstein, 2002, interviews

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with Hungarian union leaders). The World Bank has been of particular importance for pension reform in post-communist Central and Eastern European countries, mainly because it was the main international financial organisation that advocated partly funded three-pillar pensions systems (World Bank, 1994). The World Bank's influence in both Romania and Hungary was not limited to an indirect, political discourse level kind of influence. It also had a very direct influence on pension reform, offering both loans and technical expertise (Nelson, 2001, interviews with Romanian union leaders). The comparison's validity is enhanced by the fact that the World Bank advocated very similar changes in the Hungarian and Romanian systems. Furthermore, the similar recommendations of the World Bank should be in itself an indicator of the similarities that existed in terms of pensions systems in the two countries.

There is also a geographical proximity that makes Hungary and Romania prone to learning from each other's policy experiences. Both Romanian political and social actors, as well as the media are making constant references and comparisons with pension reform in neighbouring countries ('Adevarul' on-line archive⁴).

Romanian politicians explicitly state the fact that they have been inspired in their reform proposals by the experience of countries like Poland and Hungary, although it is interesting to see that they are willing to draw only some lessons and not others⁵, which opens up the possibility of using "lessons drawn from other countries" as a legitimation tool, more than a cognitive one. Romanian trade union leaders also make constant references to the Hungarian and Polish experiences, admitting that these have made them aware of several

⁴ *Adevarul* is a national Romanian newspaper.

⁵ For example, both Poland and Hungary experienced very serious problems due to the fact that they have both implemented the new pensions system before having an integrated IT system that allows state institutions to keep track of individual contributions. As a consequence, after contributions of around 5 million Euros had been collected in Poland, it became obvious that there were no means of linking contributions to individual accounts because of the lack of a suitable IT system. As a consequence, the first contributions were equally divided among citizens (action which runs counter to the very founding principles of the new system). At the moment of implementation (August 2007), Romania also lacked an integrated IT system and although other countries' experience has showed that this has been a real problem, Romanian politicians refused to postpone implementation in order for the integrated IT system to become functional. Trade union leaders have insisted on postponing implementation and have argued that the political refusal to do so, could be explained by the very strong business lobby to start the new system (interview with Romanian trade union leader).

potential problems of the new system, problems that they had initially ignored (interviews with Cartel Alfa and CNSLR-Fratia union leaders).

Furthermore, similar actors were involved in shaping the reform in the two countries: trade unions were of crucial importance, as well as insurance companies and certain occupational groups (Nelson, 2001 and interviews with Romanian trade union leaders).

However, there are of course, significant differences as well, in terms of: political actors, electoral and political systems, political institutions, role of expertise in policy-making as it is perceived by different actors, etc. (Orenstein, 2002).

In summation, it has thus far been argued that here are no serious problems posed to the validity of comparing Hungary and Romania in terms of policy-making processes. It has not, however, been explained why Romania's and Hungary's pension systems are salient cases for comparison. Comparing the Romanian and the Hungarian unions' involvement in pension policy-making raises some interesting issues related to how institutional settings, the relationship between different policy actors, as well as the discourse of international organisations shape the involvement of social actors in policy-making.

Methodology and Limitations

In order to understand the factors that shaped trade unions' influence on pension reform in Romania and Hungary, this paper uses as sources of information: previous academic literature on the subject, media coverage (Romanian and Hungarian newspapers), as well as unstructured interviews conducted with Romanian and Hungarian trade union leaders.

The analysis in this paper is partially based on four unstructured interviews of leaders from two of the biggest and most important union confederations in Romania (CNSLR-Fratia and Cartel Alfa), as well as five interviews with union leaders from three different Hungarian confederations (three of the interviewees either still are or used to be MSZOSZ members). MSZOSZ is the largest and oldest union confederation in Hungary and has had the most important influence in pension reform.

In the Hungarian case, conducting the interviews posed several additional problems. Having required the help of a translator in conducting the interviews, some subtleties might have gotten lost in the translation. The socially

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awkward situation of having to speak through someone else might have also diminished my chances of establishing a “real” connection with my interviewees, as well as the changes of confidence developing between us. Furthermore, because of contingencies not worth mentioning in detail, I was faced with the situation of having to conduct joint interviews, instead of individual ones (at least in some cases). Unfortunately, this has changed the whole dynamic of the interviews, because the interviewees were colleagues who had known each other for years and were not willing to openly speak about or criticise the union they were both members of. One of the disadvantages of joint interviews is that “partners may collude to withhold information from the interviewer” (Arksey, Knight, 1999, p. 77).

Irrespective of these limitations, the interviewees were key players in pension reform and therefore they had a very good understanding of the policy-making process.

However, it has been 10 years since the Hungarian reform was implemented and, paraphrasing Arksey and Knight (1999, p. 82), there are questions about the reliability of our memoirs of yesterday, let alone 10 years ago. The passing of time might also make people change the way in which they perceive or explain certain events.

In the Romanian case, there are other limitations that my research is facing, but the most important is the lack of literature on the subject of pension policy-making. However, I hope I have been able to partially counteract this limitation through the information I have obtained through my interviews.

Elite interviewing is an interesting and widely analysed topic in itself, but it is not my purpose to discuss the advantages and disadvantages of the research method in general. However, some of these advantages and disadvantages are also quite relevant for this paper. I have experienced only minor problems in negotiating access, having been able to efficiently draw on a pre-existing contact who was member of the elite in question, as some literature advises (Arksey, Knight, 1999). However, I did encounter the problem of interviewees being reluctant to answering all the questions related to my topic guide and being very willing to converse at lengths, but not necessarily about the particular subjects I had in mind. Arksey and Knight (1999) also mention this limitation of elite interviewing.

Nevertheless, with all its limitations, I found the overall experience of interviewing trade union leaders as being very useful in better understanding the policy-making process, as well as the driving forces of some actors’ actions. Hopefully, the interviews are a very effective way of complementing the literature and official documents used in this analysis.

Theoretical Frameworks

In order to understand policy-making, it is necessary to understand what determines the actions of different actors. Are social and political actors mostly driven by interest or are they driven by ideas? Does it make sense to separate the two in the first place? What determines the different choices that actors make in defining their 'ideal' set of policies? How does the institutional setting or the interaction with other involved actors shape the ideas, interests and preferences of a certain policy actor? The way in which these questions are answered will affect not only our understanding of policy-making in general, but that of policy change as well. Two schools of thought, rational choice and ideation, have primarily informed this research.

For rational choice theorists, *interests* are the driving force of human action and determine the choice of actors. Without going into much detail⁶, it is worth mentioning that one of the main critiques of rational choice theories is that they are based on very simplistic assumptions about human behaviour (they seem to assume that the only rationale behind human action is the maximisation of benefits). Furthermore, rational choice approaches have also been criticised for their "failure to deliver empirically" (Busch, 1999:31).

The rational choice models are constructed on the theory of expected utility, which is based on the assumptions that human actors are capable of ordering their preferences in an unambiguous way and that they have the computational ability to perform the necessary calculations in order to see which strategy is the one maximizing their benefits (Busch, 1999). Rational choice theories also assume that preferences are not transitive⁷.

However, the assumption of the unambiguous character of preference ordering may not hold. First of all, deciphering the environment does itself play a role in preference ordering: presenting the same facts in different ways may lead to different results; the environment does not send unambiguous signals (North, 1990 as cited in Busch, 1999).

Second of all, even if actors had all information about the environment they are functioning in, it would not necessarily mean that they would be able to

⁶ There is a wide literature on the subject of rational choice theories and their critiques, but I have chosen to limit myself to this extremely brief account because this is not the main purpose of my paper.

⁷ This means that preferences *can* be ordered in a hierarchical way and that they are not circular.

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order their preferences in a non-circular way. Preference ordering may necessitate the “intervention” of normative frameworks, which means that *ideas* are the only way in which preference transitivity is sometimes “broken”.

The ideational approach, on the other hand, seems to often position itself in *opposition* to rational choice theories, mostly focusing on processes of meaning that engender choices (Braun, 1999). The search for meaning entails at least two processes: the ordering, retaining and understanding of information about the world by *cognitive frameworks* of the mind and the evaluations based on *norms* and *values* (Inglehart and Klingemann, 1978:206 as cited in Braun, 1999:12). While cognitive frameworks allow us to see what “is” and what is “feasible”, evaluation tells us what we ought to do (Goldstein, Keohane, 1993). The pivotal point of many ideational approaches is that belief systems are socially constructed and acquired and they change with social processes; choice is *social* (Braun, 1999).

The main rational choice critique of idea-based approaches is that ideas act only as interest-oriented vehicles or instruments used by actors to attain their goals (Busch, 1999). Ideas are used only as legitimation tools for political practices that are simply meant to further the interests of political actors.

Although ideational approaches and rational choice approaches often seem to be constructed in opposition to one another, I hope I’ll be able to bring further evidence (through the analysis of my case studies) that rational choice theories and ideational theories can very effectively be combined in understanding the policy-making process. As Busch (1999) argues, the two approaches can very well complement each other. Due to the fact that rational action is not possible when preferences are circular, ideas may constitute a way out of this circularity; they may be very important in coordinating the expectations that are necessary to sustain cooperation among players with divergent interests; ideas act as ‘focal points in strategic interaction’ (Weingast, 1993 cited in Busch, 1999). Far from competing with “interests” as a potential explanation for behavioural choices of political actors, ideational frameworks play a key role in defining the operational content of interests themselves (Smyrl, 1999:149). “We want what we want because of the way we think about it”, not because of some innate properties of the desired object (Blyth, 2002:29).

Furthermore, different types of ideas (beliefs, values, technical ideas) are usually integrated in greater ‘epistemic frameworks’ (which might be referred to as ‘paradigms’). Paradigms comprise beliefs, values and techniques shared by members of an epistemic community (Bernstein, 1976:89 as cited in Braun, 1999:15). In policy-making, they “specify how problems are to be perceived, which goals are to be attained through policy and what sorts of techniques can

be used to reach those goals” (Hall, 1992:91). Paradigms have the role of mitigating dispersed interests in a given policy sector (Hall, 1992). For Hall, paradigms never simply reflect group interests; they function as a device for cooperation between classes or groups (Braun, 1999).

However, ideas cannot be separated from interests and institutions; they all influence each other in numerous ways: ideas shape preferences and interests⁸, institutions influence ideas and preferences, and ideas influence institutions. It is very hard to isolate any of the three from the other two.

Policy legacies, the institutionalised interests, the actors and ideas are all interconnected in the process of determining policy paradigm changes (Capano, 1999:79). In order to explain policy change, policy-making should be placed within the context of political institutions and state-society relations; institutions provide the context within which policy change and learning takes place (Capano, 1999).

However, not all policy changes have the same impact on policy design: some changes depart in a much more radical way from the initial policy design than others.

Hall identifies three types of policy changes: first-order changes (minor adjustments in the system), second-order changes (retooling and introduction of new policy techniques) and third-order changes (a radical shift in the hierarchy of goals and set of instruments employed to guide policy) (Hall, 1993). A paradigm shift is associated with an increasing frequency and intensity of anomalies within the existing policy paradigm or with policy failures (Hall, 1993).

The deep-core of world-views is very hard to change; on the other hand, causal beliefs (which guide our understanding of the world and our perceptions of feasible action) are more liable to change (Hemerijck, Van Kersbergen, 1999).

Summarizing the main previous arguments, ideas have a variety of roles: they reduce uncertainty and ambiguity, they legitimate actions, they define the operational content of interests, they serve as coalition building instruments, as well as to coordinate expectations (and ideas are embedded in institutions)

⁸ The institutional position of actors will influence the definition of their interests, because institutions affect the degree of power, as well as the status of actors (Hemerijck, van Kersbergen, 1999:175)

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(Blyth, 2002:35). All these kinds of roles that ideas play will emerge in the analysis of the case studies that follow.

The Role of Trade Unions in Pension Reform in Hungary and Romania

a) The Role of International Organisations in Shaping Ideas and Interests; The Influence on Policy-Making of how Trade Unions Approach Expertise

Undeniably, by the mid-1990s, both direct and indirect international influences heightened the pressure for radical pension reform in both Romania and Hungary (Nelson, 2001). It is impossible to understand pension reform in post-communist countries without being aware of the tremendous impact that the World Bank, the International Monetary Fund, as well as the European Union⁹ had in these countries¹⁰. By offering loans and technical expertise, the World Bank¹¹ has been the most important of the three.

However, the paramount importance of World Bank's involvement in pension reform in the two countries mainly stems from the fact that the WB was able to create a 'dominant narrative' that gradually became accepted by most domestic actors. The acceptance of this paradigm profoundly influenced the way in which domestic actors made sense of the world around them (their perception of policy legacies, institutional settings, problems of the old systems and solutions to those problems, etc.). And since 'the social power of any set of ideas is magnified when these ideas are taken up by a powerful political organisation, integrated with other ideological appeals and widely disseminated (Hall, 1986:259), it is not hard to see why the Bank's theories on pension reform were so widely accepted in post-communist countries.

By shaping the cognitive frameworks of the actors involved, the WB also re-shaped their preferences, because once a dominant narrative is accepted, it will frame policy changes and reorient preferences (Radaelli, 1999).

⁹ The European Union's influence manifested later and only in some of the post-communist European countries.

¹⁰ The influence of international financial organizations (as well as other international organizations) on post-communist transition countries is a widely analysed topic. There is an entire body of academic literature that sheds light on this subject.

¹¹ However, the World Bank's involvement in social policy reform has not necessarily been uniform or coherent. As Deacon concluded in one of his studies (1997), different advice has been offered by different consultants.

The structure of public policy is ‘the concrete product of a political process wherein purposeful actors provide and diffuse interpretation, narratives and paradigms’ (Radaelli, 1999:99). The publication of ‘Averting the Old Age Crisis...’ (World Bank, 1994) was the initial stage in the diffusion of the new paradigm. The book concluded with a proposal for a mandatory multi-pillar arrangement for old age security that diversifies risk to the fullest, through the mix of the private and public management, insulating the system from political pressures, downsizing the public pillar gradually while reallocating contributions to a second mandatory pillar, and increases long-term saving, capital market deepening, and growth through the use of full and decentralized control in the second pillar (World Bank, 1994). International trainings organised by the World Bank, as well as different forms of technical expertise offered to governments, were also part of the diffusion process.

Policy narratives relevant to policy-making generally have the shape of causal stories (Stone, 1989 cited in Radaelli, 1999; Hemerijck, van Kersbergen, 1999); ‘a persuasive policy story presents a doomsday scenario that shows the consequences of inaction and a positive scenario in which the favoured course of action is chosen; scientific uncertainty is translated into political certainty by the use of dominant stories in the policy process’ (Radaelli, 1999). The narrative presented in ‘Averting the Old Age Crisis...’ matches this description quite well: the consequences of inaction in the case of pension systems were presented as being the un-sustainability of the current PAYG systems, serious macro-economic problems and a failure to develop a more functional capital market. The positive scenario (in which the system is changed into a multi-pillar one) was supposed to lead to the creation of a more sustainable pension system, macro-economic stabilisation, growth of the equities market and increase in the pensioners’ quality of life.

Contrary to what some of the literature may suggest, the influence of international organisation’s advice and expertise was not limited to governmental actors; *all* actors were influenced by the ‘new paradigm’ and by the general WB involvement (interviews with both Hungarian and Romanian trade union leaders).

Only when the World Bank launched the narrative of the lack of sustainability of the PAYG system, as well as its harmful effects on the economic development of the countries, were different political and social actors willing to admit to the need of changing the pension system.

The World Bank has had the very important role of helping domestic actors both to define the “problems” the PAYG system was facing, as well as identify solutions to those problems.

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In Romania, the acceptance of the underlying principles of pension reform did not necessitate a “paradigm shift”, because there was no coherent paradigm on pension system that dominated the political discourse at the time¹². The lack of expertise especially among organised labour led to a surprisingly facile acceptance of the reform among trade union leaders (interview with CNSLR-Fratia leader).

However, some of the Romanian trade unions gradually became interested in acquiring more technical expertise on pensions and the existence of experts at the union level has become much more common¹³. This has led to two major outcomes: the general ideas¹⁴ about the possible advantages and disadvantages of the new system have slightly changed and negotiations among interested actors have shifted to a more technical level (actors have long time ago agreed on the overarching principles of the reform, but details *do* matter a great deal) (interview with Cartel Alfa leader).

In Romania, as some unions acquire technical expertise and are able to set up intensive media campaigns, trade union leaders gain an important role in shaping the discourse on pension reform as well. The Romanian confederation Cartel Alfa, just to give an example, has carried out an impressive media campaign aiming at making people aware of the design problems posed by the new system (interview with Cartel Alfa leader).

In Hungary, the expertise on pension reform at the union level was greater than in Romania and the existence of institutional arrangements that offered some of the unions a great deal of decision power, offered especially the “old”¹⁵ Hungarian union MSZOSZ serious incentives to oppose the reform (Nelson, 2001).

However, something else emerges from the analysis of the case studies: trade unions have different organisational cultures that make them more or less

¹² There was, of course, the paradigm underlying the old PAYG system, but it was not really a ‘dominating’ paradigm at the political level, it was mostly a legacy that was taken for granted.

¹³ The creation of expertise at the union level was also influenced by the World Bank. The trade union leaders I’ve interviewed mentioned participating in seminars and trainings organised by the World Bank, talking to WB experts, as well as using different WB resources.

¹⁴ In this case, ‘idea’ is referring to ‘cognitive frameworks’.

¹⁵ In his discussion of the influence of trade unions on pension reform in Hungary, Orenstein distinguishes between ‘old’ trade unions and ‘new’ trade unions (2002). The old trade unions are those that have inherited the structure, assets and members of the main Communist union (the Hungarian MSZOSZ and the Romanian Cartel Alfa are two such ‘old’ unions). Orenstein argues that old unions and new unions have a different status and different negotiation power (Orenstein, 2002).

open to acquiring and using technical expertise. In Romania, the two major union confederations have very different organisational cultures and very different approaches to technical expertise. While Cartel Alfa's leaders put a lot of emphasis on research and detailed knowledge of how the pension system works (interview with Cartel Alfa leader), CNSLR-Fratia's leaders seem to be more keen on arguing about general principles, rather than technicalities (interviews with CNSLR-Fratia's leaders).

Among its leaders, Cartel Alfa has a number of trained experts that have acquired in time a very thorough understanding of the technical aspects of pension reform (by attending seminars and trainings organised by the World Bank, by keeping up to date with the literature on pension reform, especially the one concerned with the failure/success of the World Bank three-pillar model). These union leaders consider that it is crucial for unions to understand all the technical details of the reform in order to better negotiate with other stakeholders.

Thus, in order to understand the way in which Romanian unions got involved in the reform it is crucial to know that unions have a different level of expertise and a different organisational culture in terms of integrating technical ideas in their negotiations.

The different role of expertise (in the two confederations) has consequences for the demands that the two confederations are voicing, as well as for the negotiation style they are generally using.

In both Romania and Hungary, the major disagreements regarding pension reform turned less on values than on interpretation of facts and probabilities (Nelson, 2001). This makes the importance of experts (in interpreting facts and probabilities) absolutely crucial in understanding pension reform. The most important struggles were not about principles or goals, but about mechanisms and instruments used to attain these goals (interview with CNSLR-Fratia leader).

The prospect of accession to the European Union also acted as instrument for creating social consensus on the need of reducing fiscal burdens (interviews with MSZOSZ leaders). The need to fulfil the Maastricht criteria proved to be a very effective way (in both Romania and Hungary) of creating consensus on the need to reform the pension system (the *way* in which to reform it, on the other hand, is a different issue altogether) (interview with MSZOSZ leader). Trade union leaders themselves acknowledged that, in order for Hungary to join the EU, there was a need for putting a stop to the rising costs of social security programmes (interview with MSZOSZ leader).

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The pressures exerted by the prospect of EU accession show that external constraints may promote cooperation between domestic actors (Baccaro, 2002).

International financial institutions had a very important role in creating the theoretical framework of pension reform: the World Bank had a crucial role in producing ‘paradigm shifts’ at the domestic level. World Bank discourse on pension reform was very similar in Hungary and Romania, but it did not directly lead to similar outcomes: what mattered was the way in which domestic actors understood and made use of the new paradigm. The accession criteria imposed by the EU also acted as a tool for consensus among domestic actors, because all actors became aware that cuts in social spending were needed in order to satisfy the accession criteria.

b) The role of Political Institutions and Other Domestic Actors in Shaping Trade Union’s Ideas and Interests

Although international institutions had a very important role in shaping the discourse on pension reform in both Romania and Hungary, it must not be forgotten that it is mainly the interaction between different domestic actors that shapes policy outcomes. Political parties, organised business, trade unions – all have an important say in how social policies will look. Due to the fact that this paper is concerned with the influence of *trade unions* on pension reform, the following analysis will mainly focus on the policy-making aspects that are relevant to trade unions’ involvement: the institutional setting, the relationship between unions and political parties and the relationship between unions and organised business. Although the electoral, as well as the political system also shape policy change (Haggard, 2001), they are normally not very relevant in explaining trade unions’ involvement in policy-making.

Political institutions have an important role in shaping the preferences and actions of social actors (Haggard et al, 2001). Interest groups find their opportunities restricted by the structure of political institutions (Orenstein, 2002). Thus, it is to be expected for the pre-reform institutional setting in both Romania and Hungary to have shaped the interests and influence of trade unions.

In Hungary, the social security budget was removed from the general budget in the early 1990s. In 1993, two new funds were established to manage social-security contributions for pensions and health (Nelson, 2001 and interview with MSZOSZ leaders).

The Pension Insurance Fund and the Health Insurance Fund had elected governing boards composed in equal halves of representatives of union federations and employers (Nelson, 2001 and interview with MSZOSZ

member). The two social insurance funds were relatively free from “hard budget constraints”, as well as relatively politically independent¹⁶ (Haggard et al, 2001).

Among union representatives, the MSZOSZ clearly dominated (Nelson, 2001:248; interview with MSZOSZ leader). Until 1998, when FIDESZ¹⁷ (the new governing party) eliminated the boards, the Pension Insurance Fund represented a valuable asset for the union federation because of its control over major flows of money, that might have ‘permitted financial manoeuvring widely believed to have benefited the union as an institution, key leaders, and political parties’ (Nelson, 2001:248).

The institutional setting led to disagreements among trade unions, because some of the ‘new’ trade unions (for example SZEK - the major union confederation representing public service workers) favoured reforms, while the ‘old’ MSZOSZ opposed it (Nelson, 2001), the main reason being that the pre-reform institutional setting offered a lot of decision power to the MSZOSZ, and almost none to the ‘new’ unions. A tripartite organisation, the Interest Reconciliation Council was also established in 1991 and “had the potential to steer overall macroeconomic practice” (Haggard et al, 2001:82). However, its role was problematic, because the IRC was not authorized to reach binding decisions on macroeconomic policy (Haggard et al, 2001). Nevertheless, the Council offered an alternative forum for debates that increased the possibilities for stalemate over policy issues (Haggard et al, 2001 and interview with Hungarian trade union leader). In terms of its influence on pension reform, the IRC succeeded in “reducing the weight of the private pillar within the system” (Haggard et al., 2001:83 and interview with Hungarian trade union leader).

The institutional design that existed during reform negotiations led to disagreements among members of the MSZOSZ (Nelson, 2001). Those who were union representatives in the Pension Insurance Fund opposed reform, while those who were union representatives in the Interest Reconciliation Council (The Hungarian Tripartite Commission) were more moderate (Nelson, 2001:248).

The way in which the institutional setting was constructed in Hungary led to disagreements both between unions and within them.

¹⁶ Each fund was placed under the control of union representatives elected by the population at large.

¹⁷ FIDESZ (The Federation of Young Democrats) is a right-wing Hungarian party.

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In Romania, on the other hand, unions had no institutional incentive to oppose reform, because the only mechanism through which unions could get involved in the decision-making process was through the tripartite commissions that existed at the ministerial level and through informal lobby (interview with CNSLR-Fratia leader). The reform brought about the creation of two additional institutions which offered the unions extra formal channels of influence. First, there was the creation of a tripartite committee, the Economic and Social Committee, which reunited government officials, trade unions representatives, as well as organised labour representatives (www.ces.ro). Although the committee's decisions are not binding, the legislators are obliged by law to ask for the opinion of social actors, whenever a new law is drafted (www.ces.ro; interview with CNSLR-Fratia leader). The evaluations of legislative drafts that the CES makes public may sometimes create a lot of public pressure on the government to take into account the proposals of social actors (interview with CNSLR-Fratia leader).

The creation of the National House of Pensions and Other Social Security Rights (CNPAS) also increased the influence of trade unions on pension policy-making, because trade unions are represented in its governing board (www.cnpas.ro, interview with Cartel Alfa leader).

As opposed to Hungarian trade unions, Romanian trade unions had very serious institutional incentives not to oppose pension reform and, indeed, they did not.

The opposition of some Hungarian trade unions to pension reform and the acceptance of Romanian trade unions can easily be explained by the rational choice approach: actors chose to support the institutional setting that offered them greater power and a better chance of maximizing their benefits (Busch, 1999). It can also be argued that MSZOSZ members used the normative idea of the importance of solidarity in society as a 'hook' (Shepsle, 1985 as cited in Busch, 1999:32), as a way of legitimizing their interests. However, the MSZOSZ had solidaristic leanings (Nelson, 2001), but, in this case, those were used only as tools in attaining other goals.

While the institutional setting is very important in understanding trade unions' preferences, the relationship between political parties and unions is also very relevant in grasping the access of social actors to the political arena and to policy-making (Orenstein, 2002). However, the influence that a social actor can gain through its relationship with political actors is shaped by the electoral and political system of the country. For instance, an interest group that has close relations with a dominant party in Parliament may have a good chance of influencing policy in a parliamentary system, but little chance in a presidential system (Orenstein, 2002). The relationship between unions and political parties

is very important in understanding pension reform, because a congruence of interests between socialist parties and unions increases the political power of unions, as well as the probability for union proposals to be accepted by the government (Anderson, Meyer, 2003).

In both Hungary and Romania, the government's capacity to generally manage union opposition was enhanced by the strong links between the old unions (that were the most powerful as well) and the post-communist socialist parties (Nelson, 2001; 'Adevarul' on-line archive). In Hungary, the Socialist Party contained a sizable MSZOSZ component (Nelson, 2001). In the Romanian case, the relationship between the old CNSLR-Fratia union and the social democratic party was quite intricate. There were many attempts to create joint political and social units that would bring together Social Democratic politicians and CNSLR-Fratia members ('Adevarul' on-line archive), the main purpose of the creation of such units being for the political party to offer support for union proposals in the political arena and for the social actors to offer support for party proposals and for implementing reform ('Adevarul' on-line archive). However, although such units existed for a short period of time, they could not last long enough to survive the coming to power of the Social Democratic Party (idem).

The coalitions that so often emerge between social democratic parties and trade unions are an indicator of the fact that ideas can be used as devices for creating coalitions among actors with different interests (Blyth, 2002).

Not very surprisingly, private insurers were also among the major stakeholders of the reform, as well as (in the Hungarian case) the firms that were already functioning in the third pillar of voluntary pension funds (Nelson, 2001). These firms wanted to reduce the costs of participating in the second pillar by persuading legislators to permit them to use the same infrastructure that they had developed for the third pillar.

In Romania, business lobby was particularly strong and trade union leaders feel that it was very successful as well. This success is most apparent in the legislative changes that have been approved in 2007. The 2007 legislative modifications give the CSSPP (The Commission for the Supervision of the Private Pensions System¹⁸) a lot of decision power in changing both the administration fees that pension funds are allowed to charge, as well as the

¹⁸ The CSSPP is the specialized and autonomous public authority dedicated to inspecting and regulating the functioning of the private pension system, under control of the Romanian Parliament.

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minimum profitability rate below which pension funds are not authorized to continue functioning (interview with Cartel Alfa leader). Furthermore, due to the fact that the fees paid by insurance funds cover the functioning costs of the CSSPP, trade union leaders argue that this very fact diminishes the independence of the supervisory commission from business lobby (interview with Cartel Alfa leader).

Experience shows that a permanent tension exists between the two main union confederations in Romania (CNSLR-Fratia and Cartel Alfa). Not only do they have a different way of perceiving the role of technical expertise in policy-making, they also have very different views about the relationship that should exist between unions and political parties, as well as unions and organized labour. While Cartel Alfa leaders explicitly state that they are ‘fierce enemies of organized business’ (interview with Cartel Alfa leader), CNSLR-Fratia seem to be much more willing to accommodate business interests and do not seem to consider that businesses should not profit from the reform. On the contrary, they consider that in order for the new system to function properly, the law must be designed so as to attract more business participation in the system (interview with CNSLR-Fratia leader). CNSLR-Fratia accuses Cartel Alfa of trying to push forward proposals that would make the system unattractive to insurance companies and banks and would, on the long run, erode the new system (interview with CNSLR-Fratia leader).

Cartel Alfa’s leaders see the relationship between unions and business as being a permanent and intrinsic antagonism; the role of unions is to oppose organized business’ interest, to limit the influence of business lobby on social policies as much as possible.

In Romania, business lobby and pressure exerted by business organizations is not limited to government officials or politicians. Trade union leaders themselves are targets of business lobby. Insurance companies offer different kinds of incentives to trade union leaders in order for those to persuade as many employees as possible to adhere to certain pension funds, as opposed to others (interview with CNSLR-Fratia leader). However, it is not clear whether union leaders have so far accepted any of these offers.

Interestingly enough, although there are disagreements among union confederations, most union proposals related to pension reform are drafted by Cartel Alfa experts and then signed by all five major union confederations in Romania. The disagreements that confederations might have with each other are not normally made public, but are kept at the negotiation table among unions, so that in the eyes of the public, there is no disagreement among the major union confederations concerning pension reform (interview with CNSLR-Fratia leader).

In Romania, union representatives and business representatives often accuse each other of having “unorthodox” ways of influencing the activity of the CSSPP. Organized business representatives claim that some of the CSSPP’s members are biased towards union proposals, especially due to the political links between old unions and the social democratic party (Adevarul, on-line archive). On the other hand, some trade unions accuse *organized business* of having a “special relationship” with some of the CSSPP’s members.

In Hungary, MSZOSZ leaders had the same approach *to defining the role of business in pension reform* as the Romanian Cartel Alfa. Insurance funds and banks should not gain any serious profits from administering the second pillar, because if the government obliges citizens to contribute to private pension funds, it is not morally correct for insurance funds to gain profits. More radically put, ‘the government should not oblige its citizens to help private companies gain profits’ (interview with Hungarian trade union leader).

Implications for the Understanding of the Policy-Making Process

The way in which actors’ ideas and interests are shaped by different factors will also have implications for our understanding of the policy-making process.

In analysing the policy-making process of pension reform in Hungary, Orenstein (2002) draws attention to the fact that many studies have shown that institutional legacies of the communist welfare state regime are among the most important factors influencing social policy during the post-1989 transition (Orenstein, 2002).

This emphasis that exists in the literature on the role of policy legacies in explaining post-communist policy-making suggests that maybe Weir and Skocpol’s state-centred approach may be best suited in explaining the realities of Central and Eastern European countries. Weir and Skocpol (1985) argue that the institutional structures of the state play a critical role in determining the access and weight of various interests and coalitions. Their main argument is that the organisational structure of states indirectly influences politics for all groups in society; the administrative, the fiscal, coercive and judicial arrangements of given states, as well as the policies that states are already pursuing, influence the conception that groups or their representative are likely to develop about what is desirable, or possible in the realm of governmental action (Weir, Skocpol, 1985). Elaborated to explain the different ways in which

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states embraced or did not embrace Keynesian policies in the 1930s, the model showed how state structures and policy legacies shaped the adoption of economic reforms (Orenstein, 2002).

Weir and Skocpol showed that government social policies are the outcome of a complex, path dependent process whereby politicians, usually situated in positions determined by the institutional configuration of the old system, respond to ideas generated or interpreted through the mechanisms of the old system, and respond to social groups whose interests and expectations are also influenced by, and expressed through, the old system (Weir, Skocpol, 1985).

Weir and Skocpol's state-centred theory on policy-making can maybe best explained graphically:



The state structures and policy legacies will influence which intellectual innovations become policy-relevant, as well as the activities of politicians and officials and the politically expressed demands of social groups. On the other hand, social groups' demands and politicians' activities will also shape each other.

However, Weir and Skocpol's state-centred policy-making theory cannot completely account for the factors that were involved in shaping pension reform in Romania and Hungary, mainly because it does not include the mediating role of political institutions and the influence of international organizations in the model (Orenstein, 2002). A better account of the policy-making process will have to take into consideration the direct and indirect influence of international organizations.

Having analysed the process of pension reform in three post-communist countries (Hungary, Poland and Kazakhstan), Orenstein tries to refine Weir and Skocpol's theory by further integrating the role of international actors as well (Orenstein, 2002).



Due to the fact that Orenstein’s policy-making theory takes into account the direct and indirect influences of international institutions, it is better suited than Weir and Skocpol’s theory in explaining the policy-making process of pension reform in countries like Romania and Hungary. However, I think that further minor refinements can be brought to Orenstein’s theory as well: the way in which policy legacies are perceived will also be influenced by the discourse of international institutions (for example, the diffusion of the World Bank’s idea that the PAYG system is unsustainable on the long-term will also influence the way in which domestic actors perceive policy legacies). Furthermore, I think more emphasis is needed on the influence that the expertise of international organisations has on social actors. As this paper tries to show, in Romania and Hungary, trade unions’ ideas and interests were both directly and indirectly affected by the political discourse and political interventions of international organisations. More emphasis should be put on the influence of the organisational culture of social actors and their use of technical expertise on policy-making. This is how the policy-making process would look like, taking into consideration my two refinements of Orenstein’s theory:



Conclusions

In order to understand how specific actors influence the process of policy-making, it is absolutely necessary to understand what drives them: the ideas and interests they have and how these two interact with each other. On the other hand, both ideas and interests are in their own turn shaped by various factors (institutions, for example, have a particularly important role in this respect). What this paper tried to show is that unions' influence on social policy reform and on social policies in general varies a great deal and that trade unions (through their leaders) do not always 'push' for more social benefits, in the same way in which organised business does not always seek to retrench social policies (Swenson, 2002).

Furthermore, I think that the policy-making literature has not offered enough attention to the way in which the structure and organisational culture of *social* actors (not only governmental or political ones) influence policy outcomes. So far, although the general role of knowledge and technical expertise in policy-making has been repeatedly acknowledged, I have not encountered many accounts of the ways in which trade unions' approach to using and acquiring technical expertise shapes policy outcomes.

Ideas as cognitive frameworks have an important role in how policy actors shape their understanding of the world around them, as well as their preferences. But ideas also often act as tools for policy-making actors and it is undeniable that at the negotiation table, a thorough understanding of the issue at stake will always prove to be an advantage. This is why it *is* relevant to understand how different social actors acquire and use technical expertise. The way in which different trade unions use the theoretical knowledge of economist and social policy experts will have a great impact on how they influence reform. As one of my interviewees was saying, Romanian unions very easily agreed to pension reform mainly because they did not have the technical expertise at the time that would have allowed them to see the possible advantages and disadvantages of the new system (interview with Cartel Alfa leader). However, although cognitive frameworks *do matter*, they are not the only ones that do: institutional settings matter as well¹⁹. When one of the biggest Hungarian confederations (MSZOSZ) strongly opposed reform, it was quite clear to many of the ones involved in the process that it did so mostly because its leaders had a lot of decision power in the pre-reform institutional setting.

¹⁹ To separate the two is slightly artificial, taking into consideration the fact that ideas will also influence the way in which actors perceive different institutional settings and their benefits-maximisation potential.

Based on the analysis of my two cases studies, it can be argued that ideas have had a tremendous role in the way in which unions influenced the pension reform in Hungary and Romania. Both in the Hungarian and in the Romanian case, ideas acted as ‘cognitive frameworks’, shaping social actors’ perception of the institutional environment. Ideas also acted as ‘hooks’: as interest-oriented vehicles or instruments used by actors to attain their goals (Shepsle, 1985 as cited in Busch, 1999, p. 32). The MSZOSZ leaders may have used *solidarity* as a ‘hook’ only in order to further their interests of keeping the pre-reform institutional setting and in remaining in control of the Pension Insurance Fund. However, the MSZOSZ had solidaristic leanings in the first place that probably contributed to their initial opposition to reform (Nelson, 2001:248): probably ‘solidarity’ really did constitute one of the union’s values, but in the same time, it was used as a “hook” as well. It may be that the normative frameworks of actors set boundaries to the options these actors have in terms of which ideas they can use as ‘hooks’.

The peculiar institutional design of the Hungarian system led to disagreements between members of the same union. The MSZOSZ members that were part of the Interest Reconciliation Committee (the Hungarian tripartite committee) were more open to discussing the possibility of reforming the pension system, compared to those members that were only part of the PIF. Disagreements among Hungarian trade unions stemmed from the institutional design and the different preferences that were shaped by it.

Unlike the Hungarian trade unions, the Romanian trade unions had no institutional incentive to oppose reform. They actually had incentives to support it, because the post-reform institutional setting included (in addition to the former one) the National House of Pensions (CNPAS) and the Economic and Social Committee (institutions that both offered trade unions more influence on policy-making than they used to have).

In Romania, disagreements among trade unions were mainly a consequence of the different relationship they had with *other* stakeholders. The main source of disagreement was the nomination of the unions’ representative for the CSSPP (The Commission for the Supervision of the Private Pensions System). Other unions accused CNSLR-Fratia of having nominated a person that may be biased in favouring organised business’s interests, and not those of trade unions.

The close relationship between CNSLR-Fratia and the Social Democratic Party, as well as its much friendlier approach to organised business,

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had a negative impact on its relationship to other confederations, such as Cartel Alfa.

In Hungary the unions did not initially speak in one voice, while in Romania they seem to have initially agreed quite easily both on the need to reform the old system and on the three pillar design of the new system. However, as trade union leaders have acquired more expertise, some differences among unions did begin to emerge.

The analyses of pension reform in Hungary and Romania also has implications for theories on policy-making. As Orenstein argues, analysis of social reform in post-communist countries will shed light on the shortcomings of certain classic policy-making theories: there is a need to take into account the role of international organisation in shaping the policy process both directly (through interventions) and indirectly (through the policy discourse).

The analysis of pension reform in Hungary and Romania brings further evidence that trade unions' influence on policy-making is shaped by the international policy discourse, by the institutional setting, by their relationship with other policy actors, by their organisational culture and even material inheritance. 'Old' unions that have inherited various assets, as well as an infrastructure from the former communist unions (Orenstein, 2002) will have a different role in policy-making than the new trade unions. The role of trade unions in policy-making is not uniform. In the same way in which capital is not always against the development of certain social policies (Swenson, 2002), trade unions will not simply 'push' for more social benefits, regardless of anything else.

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- Bucharest Pension House: <http://www.cpmb.rdsnet.ro/>
The Commission for the Supervision of the Private Pensions System
<http://www.csspp.ro/ro/>
National House for Pensions and Other Social Security Rights
<http://www.cnpas.org/>

Media Coverage:

- ‘Adevarul’ on-line archive:
<http://www.adevarulonline.ro/index.php?section=arhiva&screen=inde>

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Interviews:

- MSZOSZ President
Textile Workers Union President (former MSZOSZ member)
Mineworkers Union President
Senior Expert of MSZOSZ Pensioners Board
Commerce Workers Union Vice-President
National Confederation of Free Trade Unions CNSLR-Fratia, Secretary
General
Spokesperson, National Confederation of Free Trade Unions CNSLR-Fratia
Vice-president Cartel Alfa
Confederal secretary, National Confederation of Free Trade Unions
"CNSLR-FRATIA"

Appendix

**Topic guide of unstructured interviews held in May and June 2007
with various Romanian and Hungarian trade union leaders:**

The involvement of trade unions in the functioning of the pension system before the reform

Pre-reform institutional settings (emphasis on institutions where unions were directly involved)

The first reaction to reform proposals of major trade unions

The overall proposals of trade unions in reforming the first pillar

Overall proposals of trade unions for the second and third pillars

The main governmental proposals that were opposed by unions and the reasons for opposition

Formal or informal involvement of trade unions in reforming the pension system

Major disagreements between trade unions and the other actors involved in the process of policy-making (government, organised business, banks, insurance funds)

Details about negotiation mechanisms used by the state in its relation with trade unions

The relationship between trade unions and governing parties, as well as other political parties

Divergence or convergence of interests among different union confederations

Involvement of trade unions in monitoring and evaluating the new system.