Varieties of capitalism in Eastern Europe (with special emphasis on Estonia and Slovenia)

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Abstract

The authors proceed from the assumption that the institutional and economic efficiency of a particular country (or society) depends on its historic legacy or ‘path-dependence’, strategic interactions of the elite and the impact of the international environment. Estonia and Slovenia are both — not only economically, but also institutionally — perceived as relatively successful and prominent post-communist countries and new members of the EU. Yet they have developed completely different — in some aspects even diametrically opposite — regulative settings and socio-political arrangements. The main emphasis is on the connection between the dynamics and ideological preferences of political actors and the pace of reforms as well as institutional regulations. One can argue that the political elite in Estonia encouraged the shaping of the state in a direction close to the liberal-market model, whereas Slovenia is closer to the corporatist social welfare-state model. In both cases, some dysfunctional effects are evident that represent a new challenge to the elites and, at the same time, a test of their credibility and competence.

Keywords: Political elite; Corporatist model; (neo)Liberal capitalism; Social (welfare)-state; Industrial relations; Social inequality; Varieties of capitalism theory (VoC); Slovenia; Estonia

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Introduction

Despite undergoing apparently similar reforms, the countries of Central and Eastern Europe — particularly in the last two or three years, when finishing the period of transition into democracy and capitalism — show specific similarities along with some considerable differences. This situation has emerged even though these countries had to adjust to the EU’s acquis communautaire and implement the same regulations and institutional settings in their own nation states. Slovenia and Estonia, besides being post-communist countries, also share some other similarities. First, in geographical terms they are small countries with a relatively small number of inhabitants. Second, they are new countries that only gained independence after the fall of communist regimes. (In the case of Estonia, independence was in fact regained after already having been a sovereign country between the two World Wars.) Third, they were the most economically developed regions in former multi-national settings (although Slovenia was at a considerably higher level in this regard) with the most Western contacts due to their geographical closeness to Western Europe: Slovenia borders Austria and Italy and Estonia has a maritime border with Finland (Norkus, 2007; Hannula et al., 2006; Ennuste and Wilder, 2003). In terms of macroeconomic indicators and indicators like the level of political and civic freedom, the development of civil society, efficiency of governance and the (relatively low) degree of corruption, they are both found among the top new EU members and are comparable with some old EU members, in particular with the southern flank (Adam et al., 2005).

Regardless of the said similarities, these two new EU members experienced different dynamics of system transformation by pursuing and implementing varying types of socio-economic regulation and institutional settings. Our analysis intends to show how these variations were determined, partly by the logic of historical legacy or ‘path-dependence’, meaning the conditions existing at the start of the transition process, as well as by the character of the main actors, namely the elites, especially political ones, and their strategic choices. The ideological profile of the political elite played an important role in this respect since it was particularly responsible for taking decisions on the nature of reforms in the sense of socio-economic regulation; decisions that later influenced the type of capitalism in each country.

Ideological elite profile and the dynamics of the political space

At the start of the transition process, and later, the key political actors encountered numerous dilemmas and challenges concerning the range and speed of reform implementation and the formation of institutions. Reactions were conditioned by the available resources, knowledge and interests of influential groups. Also partly important was the elite’s ideological orientation, that is, its vision and values profile, in the process of selecting the most appropriate developmental model. It is true that the EU provided some general, common guidelines and directions, yet idiosyncratic and specific characteristics contributed mostly to the variances seen in the two countries’ institutional settings.
The situation at the beginning of the transition process differed considerably in both countries. The Slovenian economy had a certain amount of experience of cooperating with Western markets and was at least to some degree integrated into the international capitalist system and had partially adapted to its standards, though it had many characteristics of the communist system. Estonia, on the other hand, had an economic system of the classical Soviet type with centrally planned regulation, which was incapable of working in accordance with the principles of capitalism.\(^3\)

The configuration of national elites, meaning the relative position and size of various elite circles in the constellation of power, differs considerably from one post-socialist country to another — and the same is true for the balance between the reproduction and circulation of elites (Dogan, 2003; Bozoki, 2003; Lengyel et al., 2006). It is precisely the balance and relations among the recently emerged factions of the post-socialist elite that decisively determines the character of political regimes, primarily in terms of the division of power in society, that is, the level of its dispersal or concentration, as well as in terms of the social order in general. The types of elites in post-socialist societies differ from one another in a similar way as do the configurations of elites. The character of a political system in fact depends largely on the type of relations among the various political elites (Field et al., 1990; Higley and Burton, 1998). This is particularly so in the case of a system transformation in which elites play the role of institution-builders (Kaminski and Kurczewska, 1994).

**Slovenia**

Like many European democracies, Slovenia is characterised by a bi-polar division of its political space into two political camps. The first is the so-called ‘left’ and the second is the so-called ‘right’ camp, yet neither of them is fully internally homogeneous. These two camps can most clearly be divided regarding their institutional origins. The two main parties of the first camp — the Liberal Democracy of Slovenia (LDS) and the Social Democrats (SD) (up until 2005 the United List of Social Democrats) — have their organisational roots in the old socialist regime, with the latter being the successor to the former ruling Communist Party.\(^4\) The other bloc

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\(^3\) It can be said that at the start the Estonian political elite, due to historical legacy, did not have the same strategic options as Slovenian. Thus, for example, in the area of social policy in Estonia, a model of ‘societal policy’ was established that was incompatible with the market economy model. In congruence with the Marxist definition of social policy, ‘societal policy’ was in the long-term oriented to the formation of a new egalitarian social structure, or so-called social engineering, and aimed at a new and just society not based on the principles of market regulation (Rus, 1990).

\(^4\) It needs to be stressed that the LDS acquired some special features. Regarding the origin of its membership it is quite a heterogeneous party. Its dominant core originates from the former Socialist Youth Organisation which, in the second half of the 1980s, became ever more critical of the regime. It may be said that it was an opposition within the Communist Party and its members had contacts with dissident circles— opposition outside the Communist Party. In 1994, a small but very significant section of members of two parties from the new political elite (members of the Demos coalition that governed from 1990 to 1992) joined the Liberal Democracy of Slovenia. After the election defeat in 2004, the LDS experienced a crisis that ended up in disintegration of the party. As a consequence, SD has become the strongest party of the left bloc.
consists of three main parties (so-called ‘parties of the Slovenian Spring’) — the Slovenian Democratic Party (SDS) which is the dominant party here, along with the Slovenian People’s Party (SLS) and the New Slovenia (NSi) — were established in the period of democratisation. The distinction between the ‘old’ and ‘new’ parties, as they are often labelled in public discourse, largely covers the left–right cleavage (‘left’ as the ‘old’ and ‘right’ as the ‘new’ parties).  

For most of the transition period, the main political cleavage related to the positions of the two camps in the past, meaning both the period between the two World Wars and the communist period, as well as to some other issues of a symbolic and ideological nature like the role of religion and the Catholic Church in society.  

While this ‘cultural war’ still holds some potential for political mobilisation (although it has declined in the last few years), the issue of socio-economic regulation is becoming the main point of controversy since the new government, mostly comprising parties of the ‘right’, has launched a comprehensive programme of social and economic reforms directed at liberalisation and denationalisation that ought to enhance the competitiveness and innovativeness of the Slovenian economy and society at large. These reforms are encountering considerable reluctance from the opposition which warns against a rise in social inequality — meaning it is demonstrating its ‘leftist nature’ in terms of its social orientation and scepticism of ‘unleashed’ capitalism.  

The last parliamentary elections in 2004, or the victory of the ‘right’ camp, brought an important shift in the constellation of political forces. Till then, the Slovenian political space was dominated by a ‘left-liberal’ bloc in which the LDS played a central part. In this 14-year period (1990–2004), governments not dominated by ‘left-liberal’ parties were in place for just two and a half years. Although all LDS-led governments were composed of parties from different camps, this party dominated them and the ‘Spring parties’ only played a marginal role in these coalitions.  

The political domination of the ‘left-liberal’ bloc strongly related to the configuration of the Slovenian elite in general. This was also shown in a study where a fairly high level of reproduction in all elite sectors — political, business and cultural elites — was confirmed (Adam and Tomsic, 2002). Consequently, the majority of Slovenian elites gravitated, according to electoral preferences, towards the political part of the so-called ‘retention elite’, represented by the LDS and SD. This faction of the political elite has had much better contacts with the various strategic groups.  

The characterisation of both political blocs as ‘the left’ (first camp) and ‘the right’ (second camp) which is usual in public discourse has been a paradox for a long time and to some extent it has blurred the picture of the Slovenian political space, since members of the business elite belonged to proponents of ‘the left’, mostly the LDS, while many of those who considered themselves de-privileged, often described in terms of injustices suffered under the communist regime, have supported ‘the right’.  

In this regard, the ‘left’ takes a quite lenient attitude to the communist period while it is suspicious — if not rejective — of the public engagement of the Church, while the ‘right’ is strongly critical of communism yet relatively supportive of the Church’s public role.  

However, according to some analysts the current government will fail in a considerable way to accomplish the envisaged programme of reforms or that these reforms — like greater labour market flexibility and a reduction of taxes — have, also due to the resistance of labour unions, only been implemented partially.
within society – business sphere, media, academic circles – that strongly contributed to its superior position compared to their political opponents.

Estonia

Estonia differs from most other Central and East European countries (Poland, Hungary, Slovenia, and Lithuania) by the political weakness of the former communist elite. Namely, its Communist Party was unable to survive politically in some form of a ‘renovated’ successor party. Moreover, there is no strong political left in the country. Among the political parties currently represented in parliament, only one – the smallest of six parliamentary parties (the Social-Democratic Party, the former People’s Party Moderates) – may be considered to be centre-left-oriented. The others are labelled centrist or centre-right. This means that it is mostly liberal and conservative forces that are competing for political support and an exchange of positions in political power. (However, at the elections for the European Parliament in 2004 the Social Democrats won the largest share of votes, which might indicate a certain change in the configuration of the Estonian political space.)

Estonia has been characterised by very dynamic political life. It experienced frequent changes of power-holders. Since 1990 there have been eleven governments and eight different people have headed up the government. The longest duration of government was three years – between 1999 and 2002 – when it was led by Mart Laar. Most governments have been centre-right right-oriented. Only one prime minister can be declared a social democrat, Andres Tarand, then not a party affiliate but who later led the Moderates. However, even the government he led was not centre-left-oriented in general because the coalition parties came from centre and centre-right political options.

Despite the frequent change of governments, Estonian politics are very ‘stabilised’ in ideological terms. They are dominated by a conservative-liberal option (Vogt, 2003). This relates to the configuration of elites who have experienced a considerable circulation of the key positions. This circulation was not very profound, meaning that the mostly younger people recruited to elite positions have not been complete newcomers since they occupied positions of some importance even at the end of the communist period (Steen, 1997; Steen and Ruus, 2002). However, this influenced

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8 But even the orientation of this party seems to bear some traits of New Labour (Lagerspetz and Vogt, 2004: 65) and is, thus, not similar to classical social-democratic parties.

9 The centre party received the highest number of votes in the last parliamentary election and is labelled by some as ‘left leaning’ (Pettai and Vello, 2004: 993). However, it is a member of the European Liberal, Democratic and Reform Party. The Estonian People’s Union is also sometimes described as a ‘left-of-centre’ party, which refers to its more left-oriented (by Estonian standards) social and economic policies advocating more state regulation and subsidising. However, in cultural terms it is conservatively oriented and proclaims national and traditional values. This demonstrates how difficult it is for many post-communist parties to be located on the continuum of ‘left’ and ‘right’. As observed by some political analysts, the classical left–right cleavage has not yet evolved in Estonian political life (Grofman et al., 2000).

10 As stated by Steen, ‘While the nomenclature was largely removed from power, the younger, well educated, mid-level leaders from the former regime are continuing and are now occupying most of the top positions’ (Steen, 1997: 166).
the ideological composition of the political sphere and society at large since the vast majority of them have embraced a neo-liberal ideology.

The communist pedigree of the many members of the Estonian political elite (at least that was the case in the first years of the country’s independence) has not had an impact on the rightist or neo-liberal character of the political space. Further, even political parties belonging to the left side of the Estonian political spectrum are clearly pro-market-oriented, so much so that in many countries they might qualify as steadfast right-wingers (Vogt, 2003: 83). A change in ideological affiliation also occurred with some top functionaries of the former regime. Evidently the position in the former regime’s power structure did not determine ideological preferences in the post-communist situation, as happened in some other countries like Hungary, Poland or Slovenia.

**Right-wing and left-wing (ideological-cultural) hegemony**

Both Slovenia and Estonia have been for most of the post-communist period characterised by a politico-ideological hegemony. What differs is the content and bearer of this hegemony. In Slovenia the hegemony was undertaken by a ‘leftist-liberal’ camp (Adam and Tomsic, 2002), which marked the entire follow-up process of transition. Here we can speak of so-called ‘gradualism’, relying on gradual, relatively calm yet also inconsistent reforms (Rojec et al., 2004; Mrak et al., 2004). Gradualism leaned on modernisation strategy and at the same time offered fertile grounds for the already mentioned relatively high reproduction level of elites, be they political or business, as well as interest groups’ representatives, in particular labour unions. In Estonia a conservative-liberal option prevailed and directed radical change in the sense of the liberalisation of society (Lagerspetz, 2001; Lagerspetz and Vogt, 2004). Hegemony in Slovenia was maintained in circumstances of a bi-polar structure of the political space, even though electoral support for both camps was often quite in balance, mainly

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11 According to Ruus and Taru in their study of members of the Riigikogu (Estonian parliament): ‘A majority of all Estonian MPs have right-wing orientations, and consequently, previous membership of the Communist Party has only a minor impact on leftist attitudes’ (Ruus and Taru, 2003: 67).

12 One of the authors, on the other side, in his recent study argues that the elites’ strong rightist orientations are levelling out or even declining (Steen, 2007). What is surprising here is the assertion that the state option for resolving traditional collective problems found strong support among all elite groups in the period between 1994 and 2003. Considering Estonia’s low healthcare expenditure and its falling rate of total expenditure on social protection, these findings from the survey seem quite unreliable (or demand a more specific interpretation).

13 A typical example is Arnold Ruutel, the former president of the republic who was the last president of the Supreme Soviet of Estonia but later became a leading figure of one new political party (the Estonian People’s Union) that claims to represent national-conservative values.

14 When using the term ‘liberal’ in the Slovenian context, it needs to be stressed that the term refers mainly to the attitude to cultural issues. In the historical sense, Slovenian liberalism was shaped in opposition to conservatism and clericalism, mainly regarding questions connected to the role of religion in society. Therefore, in contemporary public discourse liberalism is perceived as cultural liberalism, enhancing individual choice and minority rights, and to a far less extent as economic liberalism, emphasising the freedom of economic initiative, the minimal role of the state, and so on. The Slovenian situation differs from the Estonian one, where the term liberalism is more related to the question of socio-economic regulation.
through informal elite networks; while in Estonia it was maintained through a wide value and policy consensus of the main political actors, despite the absence of a dominant political entity and the relative fragmentation of the political space.

Such a situation in Estonia may be largely explained by the presence of an ‘external threat’ in the form of Russia as a strong neighbour and former oppressor as well as the large Russophone population that strongly contributed to the homogenisation of Estonian elites on the basis of a national and neo-liberal ideological platform.\(^{15}\) In the case of Slovenia, the absence of such a strong ongoing threat (despite the fact that its ex-Yugoslav neighbours were at war) prevented such homogenisation.

The character of Slovenian elites, or their configuration, especially in terms of relations between different elite factions, has been the subject of different interpretations. Some authors consider the transition period with the dominant position of the LDS to be unproblematic, stressing the benign effect of the elite’s reproduction, especially political and social stability (Kramberger and Vehovar, 2002; Iglič and Rus, 2000). Others stress that the high level of elite reproduction may bring long-term malignant effects, including the establishment of monopolies and rent-seeking behaviour (Adam and Tomsic, 2002).

Assessments of the Estonian political situation are also not univocal. It is obvious that the country has achieved great progress in the last 15 years in terms of the development of its economy, society and political life. The dynamics of its systemic modernisation are probably the greatest in the region and is thus often labelled the ‘model pupil’ of the applicants for EU accession (Smith, 2001). For this achievement, the political actors in this period certainly deserve credit. In spite of this, certain observers detect some considerable deficiencies characterising Estonian politics and society, like the increasing social inequality, political egotism and the lack of responsibility, widespread clientelism and so on.\(^{16}\) The different experience of certain social and ethnic groups has resulted in a polarised perception of the democratic process in terms of their satisfaction with the state of democracy and the situation in society at large.\(^{17}\)

\(^{15}\) This ethnic composition of Estonian society and mostly the fact that the majority of the Russian-speaking population was without citizenship largely contributed to the formation of a neo-liberal consensus and consequentially to the success of the corresponding reforms since the burden of deregulation fell onto the Russian-speaking population that was chiefly employed in less promising economic sectors and could not affect decision-making due to exclusion (Norkus, 2007).

\(^{16}\) In April 2001, a group of Estonian social researchers addressed the public in an appeal raising their concerns about the course of the country’s development. In their view, Estonia had drifted into a political, social and ethical crisis. They described the notion of ‘Two Estonias, which symbolise a wide gap between power elite and disempowered ordinary citizens’ (Lagerspetz and Vogt, 2004: 57).

\(^{17}\) In their analysis, the two authors conclude that the gap between ethnic Estonians and the Russian-speaking ones is narrowing after the initial differences and the so-called two groups’ status. Considering data from 1990 to 1996, findings on the development of trust in the two ethnic communities indicate ‘considerable progress towards the creation of a homogeneous civil society’ (Titma and Raemmer, 2007). According to this analysis, differences between the groups are overcome by similarities resulting in the fact that ‘the Estonians feel less threatened by the Russian-speaking minority every year.’ Surprisingly, this conclusion is drawn in despite of the noted (significant) difference between the two groups in relation to the poverty issue. For example, namely 85% of Russians as opposed to 54% of Estonians believe that poor people have very little chance to escape from the poverty gap (ibid.).
Estonia and Slovenia in the context of varieties of capitalism

Deriving from the present analysis so far, we can argue that the Estonian elite established a type of state regulation and economic structure close to the (neo)liberal model, whereas the Slovenian model — that originated from gradualism — is closer to the corporatist social-welfare state with a more co-ordinated form of capitalism, similar to Austria, Germany and the Benelux states, and with some locally specific modifications. It is worthwhile mentioning that in the case of Slovenia it is impossible to deny some elements that speak of the neocorporatist character of industrial relations, the meaning of tripartite wage and social policy bargaining and the social role of the state and public sector (Stanojević, 2007; Bohle and Greskovits, 2007; Buchen, 2007; Feldmann, 2006; Norkus, 2007). However, it is necessary to also consider some specific idiosyncratic attributes especially evident in the existence of so-called insider-ownership in firms or managerial capitalism and the interventionist role of the state, including its still broad ownership of economic enterprises. Here we can consider the typologies of capitalism, in particular to the “varieties approach” (VoC).

Debates about the different types of capitalism go back in history. Let us mention the differentiation between the so-called Alpine-Rhein and the Anglo-Saxon capitalism that corresponds to the newer dichotomy between co-ordinated market economies (CMEs), and liberal-market economies (LMEs) that was introduced and newly popularised by the economists Soskice and Hall (2002). The main criteria for this classification are: labour market and industrial relations, in terms of their flexibility, social policy, the development of financial markets — stock market capitalisation, the role of the banking sector, and sometimes also professional education and inter-firm relations (corporate governance). According to the mentioned bi-polar system, the liberal type of capitalism (LMEs) is characterised by the mode of co-ordination through hierarchy and competitive market arrangements, with strong emphasis on the financial market and stock exchange. In co-ordinated market economies’ co-ordination frequently takes place through non-market relations and strategic interactions with other actors (Soskice and Hall, 2002: 8). In the former group we find the economies of the Anglo-Saxon countries, whereas Scandinavian and Continental European states fit into the latter group.

There is also another approach that — deriving from the nature of business and industrial relations and the role of the state — emphasises a three-polar typology of capitalism. The first, managed capitalism, encompasses countries that, according to Soskice and Hall, would have been placed in the co-ordinated type. Second is the market type of capitalism with the Anglo-Saxon countries and, third, state capitalism, as the residual type with France as the only representative (Schmidt, 2002). The author of this typology notices the presence of a liberalisation trend or convergence on a liberal basis but, nevertheless, these three types are very likely to maintain their specifics. A more differentiated picture is offered by the approach based on five types of capitalism: the Anglo-Saxon (defined similarly as with Soskice and Hall), continental (a corporatist model); social-democratic (Scandinavian, with the universalist welfare-state), Mediterranean (with the protection of employment and a rigid labour market and, at the same time, conflicting relations between
employers and labour unions and with an important role of banks) and the Asian type (also based on banks and a regulated labour market) (Amable, 2003).

The scope of the abovementioned discussions and classifications does not embrace post-socialist countries. However, the processes of forming the different types of capitalism in these countries are thematised in a recently published edited volume (Lane and Myant, 2007). It is known that at the beginning of the 1990s a thesis was formulated concerning Hungary and possibly other post-socialist countries, namely that a managerial type of capitalism that was put into force was supposedly different than the market ownership type prevailing in the West (Szelenyi et al., 1998). Interestingly, this thesis is not mentioned at all in the said volume and the authors mostly apply the bi-polar scheme or — according to countries’ developmental trends — a more differentiated version of Amable’s.

Regarding Slovenia and Estonia, two perspectives emerge according to the same book. One of the authors and editors claims that both — along with the Czech Republic, Poland, Hungary and Slovakia — fit into the continental type of capitalism (Lane and Myant, 2007). The argumentation used is that these countries are successful in marketisation and privatisation, yet they have an underdeveloped financial market and, on other side, a relatively well-developed welfare-state which distinguishes them from the Anglo-Saxon model (Lane and Myant, 2007: 35). Yet the second author (in the same book) speaks of two “antipodes”, namely Estonia as an example of a liberal-market economy and Slovenia that supposedly fits into the core of the neocorporatist or co-ordinated (continental) model of capitalism (Buchen, 2007).

Another classification of post-communist countries was made (apart from the abovementioned edited volume) by two authors who categorise these countries into three types: pure liberal, limited (or framed) liberalism (“embedded liberalism”) and neocorporatist. This approach matches Buchen’s argument of Slovenia and Estonia being antipodes. According to this classification, the Baltic countries should fit into the liberal type, embedded liberalism covers the Visegrad countries (the Czech Republic, Hungary, Poland, and Slovakia), while Slovenia ought to be an example of neocorporatism (Bohle and Greskovits, 2006, 2007).  

18 These authors estimated in the mid-1990s that Hungary is a typical case of managerial capitalism. They thereby derived from the analysis of elites that showed that the successor to the Hungarian Communist Party (socialists or social democrats) enjoyed strong support among managers (technocratic circles). Managerial capitalism is only feasible with a symbiosis of the economy and politics. This, however, did not happen in Hungary, since privatisation, especially after 1998, became the object of foreign investment. Yet managerial capitalism did emerge and was profiled in Slovenia where all necessary conditions have been fulfilled. This type of capitalism has a transitional character and managerial buyouts in Slovenia first emerged only after 2002 and reached a climax just recently (2007–2008). Managers have become owners of bigger enterprises and foreign investment (FDI) is still very modest.

19 Croatia and perhaps Macedonia should also be placed in this category of capitalism (Barttlet, 2007).

20 In two articles published in respected journals the authors argue that Estonia and other Baltic countries, together with the Balkan states, belong in economic terms to less-developed countries. They rely on unverified data or doubtful index calculations (Bohle and Greskovits, 2007: 446, 461, 2006: 12). Let us, therefore, mention the following statement that speaks of the fast technological development in Estonia: “The nearly 30% contribution of high tech exports in Estonia’s total manufacturing export in recent years exceeds slightly even the EU average” (Rajasalu, 2003: 200). We need to emphasise that this technological progress is largely a consequence of foreign investment or, in other words, in Estonia we find an example of the model of “foreign-led modernisation” (Hannula et al., 2006: 325).
Evidently, these classifications and typologies are quite inconsistent, in some cases even contradictory and therefore they need to be considered *cum grano salis*. They are ideal-typical constructions that enable a rough classification into models and typologies. As for Slovenia and Estonia, we can say they are reasonably different models, yet the question remains of whether they can be labelled two “antipodes.”

**Trade-unionisation, collective bargaining, employment protection**

While significant differences in the degree of trade union density (trade-unionisation) and collective bargaining between Slovenia and Estonia are present, available data on employment protection for Estonia — as used by some authors (Buchen, 2005; Bohle and Greskovits, 2006; Feldmann, 2006) — do not speak in favour of the two “antipodes” thesis. Namely, the data indicate the relatively low flexibility of the labour market and the high level of employment protection in Estonia, which is apparently, not in line with the liberal type of capitalism (LME). Thus, for example, Buchen argues — without any detailed interpretation and without questioning the two “antipodes” thesis — that the reasons for this incongruence can most likely be attributed to the communist legacy (Buchen, 2005: 18). We find the interpretation of the high level of employment protection in Estonia as the legacy of the communist regime less likely, especially when considering Estonia’s radical break with the past and therefore its weak tradition of trade unionism and collective bargaining. What seems more plausible is the interpretation that the respective data are based on normative findings and are therefore unreliable and partially outdated. The Estonian authors themselves pay attention to the widespread and systematic violations of workers’ rights and illegitimate firm management.

While the data on employment protection indicate — although this is less likely — that there is one non-liberal element present in Estonia, the level of trade-unionisation and the collective bargaining coverage rate point to much greater differences and support the “antipodes” thesis between both countries. Trade unions are well developed in Slovenia. Union density is 40% (CJM, 1998, 2001, 2003; Stanojević, 2007), collective interest representation on the firm level is very well developed and, in a comparative perspective, covers an unusually high, almost total, proportion of the employed population. Slovenia also has a high proportion of organisations where

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21 Buchen — relying on data from Riboud et al. (2002) — sticks to the thesis of the two “antipodes”, even though the data clearly do not support such an explanation. Namely, the data indicate that overall workers’ employment protection in Estonia is on a higher level than in Slovenia and Germany. According to the same data (Riboud et al., 2002), the legal employment protection index (EPL) in Estonia (3.1), in Slovenia (2.9) and in Germany (2.8). Also on a comparable level is protection from collective dismissal; Estonia (4.1), Slovenia (4.9) (Buchen, 2005).

22 One of the biggest problems in Estonia is the illegitimate system of paying wages, the so-called *envelope wages* payment that — according to the Estonian Institute of Market Research — covers 15% of the workforce (Eamets et al., 2005). The high level of legal (normative) employment protection and violation of workers’ rights in practice is also mentioned in the research report by Ivančić (2007) (see also Ivančić and Angela, 2000).

23 Signed collective agreements in Slovenia have general validity (a so-called ‘inclusive system’) and legal backup. The rights deriving from collective agreements hence cover practically the entire working population, at least in the sense of reassuring the lowest standards articulated in general agreements (Stanojević, 2005).
over 51% of the employees are also trade union members. According to the 2001 survey, the share of such organisations in Slovenia was (74.2%), in CEE transition countries (31.2%) and in the EU-15 (39.7%).\textsuperscript{24} The strong trade-unionisation in Slovenia in the 1990s or beginning of the transition period contributed much to implementation of the centralised collective bargaining system of wages regulation, grounded on general collective agreements for market and public sectors. In 2004, along with the government change in Slovenia some changes occurred in the collective negotiating system — among other things, the two general collective agreements were abolished. In the last 15 years, a noticeable shift away from the unitaristic organisational form of trade unions has happened — typical of which is the equal representation of all employed categories — towards a more heterogeneous or pluralistic form of trade union organisation. This implies a modest shift in the direction of decentralisation, but should not — at least not in any significant way — abolish the already established high rate of trade union coverage. Trade unions in Slovenia are — despite the decline in their membership — still very stable, relatively strong and influential interest groups with a high mobilisation capacity (Stanojević, 2007).

In Estonia, trade union density in 2002 was approximately 14%. The decline in membership was caused by general trends of falling employment and rising unemployment. Further, researchers also mention the hesitation of employees concerning their inclusion in trade union activities due to the prevalence of employers’ interests in industrial relations, trade unions’ poor financial situation, the lack of quality trade union cadre and the generally low level of information about union activities. Collective agreements are the most regulated in large enterprises with more than 500 employees — that otherwise represent only about 5% of the Estonian labour force, — and also cover the most categories, for example, working time, leave, bonuses and the like. On the level of small firms, more than 55% of firms in Estonia employ less than 10 people and represent 13% of the workforce.\textsuperscript{25} Collective agreements practically do not exist or are very limited. Employment contracts are mostly made on the individual level or frequently even on the basis of verbal agreements. The negotiating power of trade unions in Estonia is weak (Eamets et al., 2005).

We can say that the labour market in Slovenia is gaining some elements of flexibility,\textsuperscript{26} whereas Estonia on other side — at least formally — is beginning to recognise the meaning of social dialogue and has therefore already triggered the

\textsuperscript{24} The share of organisations with less than 50% of employees who are also trade union members is in Slovenia — as expected — relatively low (23.3%), in CEE transition countries (56.0%) and in the EU-15 (45.4%): Cranet-E and Slovenian survey 2001 data (Stanojević, 2005).

\textsuperscript{25} According to the Estonian Business Register, 1995—2001 (Eamets et al., 2005).

\textsuperscript{26} According to Stanojević, typical of Slovenia is the specific form of the highly centralised, regulated labour market that manages to retain its flexibility. This is about the so-called ‘negotiated flexibility’, where trade unions — in exchange for certain labour rights like, for example, permanent employment, consent to flexible working time, additional work, and work in shifts. Workers, therefore, work more, yet they are entitled to certain benefits. However, this only applies to older generations of workers whereas for younger people it is very difficult to get permanent employment. Thus, there are certain disadvantages of this type of regulation, like an intergenerational cleavage, a low level of births, low satisfaction with the quality of life and work-related health problems (Stanojević, 2005).
implementation of programmes (and EU legislation) for the purpose of reducing the deficiencies of the liberal model.

Social inequality

Our main thesis is that the distinction in the regulation of state-society relations (and consequently in the type of capitalism) can explain the relatively substantial differences seen in social inequality and stratification between Slovenia and Estonia as well as the welfare policies dealing with these issues. According to statistical data on income distribution, social inequality in Slovenia is among the lowest in the EU whereas in Estonia the situation is just the opposite.27 In fact, Estonia is ranked among EU countries with the most unequal distribution of income.

Gross domestic product (GDP) per capita reflects the economic situation of a particular country. A comparison between Slovenia, Estonia and other EU-27 countries (and the Eurozone countries) shows that Slovenian GDP in 2006 was 87% of GDP of the EU-27 average, whereas Estonian GDP in the same year achieved 67% of the EU-27 average. We can observe faster GDP growth in Estonia that, in the period between 2000 and 2006, rose from EUR 8200 to EUR 15,900 per capita. In Slovenia in the same time period, GDP grew from EUR 14,600 to EUR 20,600 per capita. It is evident that during the whole period Slovenia was more developed than Estonia, but in Estonia the quantitatively measured development was faster. In 2005 Estonia achieved 70% of Slovenian GDP, whereas one year later it already had 77%.

Regarding inequality in income distribution, Slovenia and Estonia are on opposite poles. Slovenia — like Sweden — belongs to the group of European countries with the lowest inequality in income. Estonia, on the other side, ranks among the five European countries with the most unequal income distribution.28 Considering Estonia’s high economic growth and low unemployment rate, it is possible to assume that it is not the entire population which is benefiting from the growing wealth. In 2005, 18% of the Estonian population (or 250,000 people) lived below the poverty threshold. In Slovenia, the corresponding average in recent years has been 11%.

Table 1 shows a comparison between Slovenia and Estonia regarding income inequality on the basis of the last Eurostat and Human Development Index reports.

In healthcare expenditure, Estonia (in 2003) with 4.2% of GDP ranks higher than Lithuania (3.9%) and Latvia (3.0%), Slovenian healthcare expenditure is almost twice the level (7.8%) in comparison to Estonia; values for some other comparable countries are: Czech Republic (7.1%), Hungary (6.2%), Slovakia (5.8%) and Poland (4.3%). Total expenditure on social protection in Estonia fell from 14.4% GDP in

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27 In the eyes of the Slovenian public, however, an impression exists that social inequality is (too) high and that the gap between the average citizen and rich people is growing. It has to be mentioned that the available and abovementioned indicators of social inequality are based on data about regular earnings (like salaries and pensions or social transfers) and not on the entire property of individuals or families (like real estate, shares, etc.).

28 Other European countries with the highest income inequality levels are: Lithuania (6.9), Latvia (6.7), Poland, (6.6) and Portugal (8.2). The number in brackets corresponds to the ratio between the richest 20% and the poorest 20% of the population.
2000 to 13.6% GDP in 2001, from 13.2% of GDP in 2002 to 13.4% of GDP in 2003 (Eurostat Yearbook, 2006–2007). In 2004 expenditure on social protection in Estonia was 13.4% of GDP, while in Slovenia it was almost twice as high, namely 24.3% of GDP.

According to the Eurobarometer, satisfaction with the quality of life and standard of living in Slovenia is much higher than in Estonia. In terms of the percentage of respondents who are satisfied with the standard of living and quality of life, Slovenia ranks at about (or even above) the EU-25 average, whereas Estonia remains lower.29 Social security, especially healthcare, is a topic that concerns 53% of Estonians in comparison to only 29% of Slovenians (Eurobarometer, 2007). It needs to be stressed, however, that according to the same survey Estonians ought to be the most optimistic European (EU) nation considering future expectations or orientations. On the basis of socio-economic trends, they expect a significant improvement in conditions in the next twelve months and in the next five years.

A report on social inequality recently published by the Statistical Office of Estonia confirms our thesis of growing social inequality in Estonia. According to the statistical report, inequality is present in different spheres of society, affecting the well being of many people in terms of their health and social protection and their possibility to get a proper education, thus hindering their social and civic participation. A general conclusion that was, on the basis of different data – by referring explicitly to the situation in Slovenia – reached in this report is that the higher the expenditure on welfare or social protection, the lower the income inequality will be (Eomois, 2007).

Clearly Slovenia and Estonia are both successful Eastern-Central European countries. However, the Estonian elites have been pursuing one of the most liberal types of capitalism, paying less attention to the rising social inequality and its dysfunctional consequences. The recent Social Inequality report published by Statistics Estonia indicates that awareness and concern about the negative consequences of social inequality is starting to grow in this country. These topics are, in spite of the more positive statistical picture, also a matter of concern and debate in Slovenia. What raises concern is that specific segments of the social system (healthcare, pensions) are becoming inefficient and therefore endangered due to

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<th>Table 1</th>
<th>Income inequality.</th>
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<td>Richest 20% to poorest 20% (Eurostat, 2006–2007)</td>
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<td>Estonia</td>
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* According to domestic calculations the Gini Index is much lower; the UMAR (IMAD) calculation for 2003 is 21.1; the calculation by the Slovenian Statistical Office (2004) is 23.8.

29 To the question regarding satisfaction with “the quality of life in the area where you live”, 90% of Slovenian respondents are satisfied, whereas in Estonia only 78% are. Considering the “standard of living”, the proportion of satisfied respondents is 83% (Slovenia) and 68% (Estonia). The EU-25 average for “quality of life” is 86% and for “standard of living” it is 83% (Special EB 2007).
under-organisation and the unfavourable demographic situation. This consequen-
tially worsens the social security of specific groups. High taxation and an extremely
powerful public sector are hindering the bloom of enterprise and civic initiatives.

**Discussion and conclusion**

The course of political development and system transition is partly conditioned by
the logic of “path-dependence”. After the disintegration of the Soviet regime, Estonia
fell into a serious socio-economic crisis. It had to choose between entrapment in
a vicious circle of inefficiency in the Western European periphery on one side, and
a developmental breakthrough through implementing radical reforms on the other.
The Slovenian situation was quite different. Its relative openness to the West and its
more pro-market-oriented economy in combination with a certain degree of political
and especially cultural autonomy — which was not the case in the Baltic countries — in
the period of socialist Yugoslavia are two factors that softened the socio-economic
transformation. This led to the prevailing conviction about the relative compatibility
of the Slovenian institutional setting with the West and prevented a clear and sudden
break with the past. The so-called “soft transition” means gradual and successive
institutional changes for the purpose of maintaining social stability. The selection of
a soft transition or gradualism was strongly connected with the high reproduction of
elites, which means that the majority of the old — partially already “modernised” and
“reformed” — communist elites managed to retain their positions in the new social
circumstances. Nevertheless, the political actors had to make decisions. The Estonian
elite decided to modernise society by using the mechanisms of a vast and fast liber-
alisation and deregulation, the Slovenian (political) elite chose gradualism instead,
which meant slower and much more cautious (but not too efficient) reforms with the
aim to guarantee a high level of macroeconomic and social stability (Mrak et al., 2004).

Both transition models have proved to be relatively successful so far. Estonia is
considered to be the fastest-developing and catching-up country that is rapidly
approaching the EU average. Slovenia, on the other hand, has succeeded in maintain-
ing the highest GDP in the region and economic stability, which enabled its
acceptance of the common European currency — the euro. It is necessary to stress the
significance of both key factors that influenced the shaping of a specific type of socio-
economic regulation. Further, the type of capitalism that has been restored in the two
countries can be understood in the context of the co-influence of structural and
partially historical-geopolitical circumstances on one side (path-dependence) and
‘subjective’ decisions, as a result of the composition of elite groups and their pre-
vailing ideological profile on the other.

In Slovenia, on the micro (enterprise) level — more than in all other post-socialist
countries — managerial capitalism has developed featuring the strong role of the state
(including the essential meaning of state ownership in the economy and an extensive
public sector) and specific corporatist elements, which were a consequence of past
development and the constellation of political and business strategic groups in the
framework of the gradualist approach. In Estonia, radical liberalisation and deregula-
tion was underway that resulted in typically liberal (market) capitalism with a peripheral
role of the state. In the case of Slovenia, we can speak of a “corporatist social-welfare state”, whereas Estonia is at most a “residual social-welfare state” with a technocratic, but limited government. It is interesting that the Estonian elite did not consider following the nearby Scandinavian model of restrictive capitalism and universal social-welfare state. The social order that has emerged in Estonia is thus closer to the Anglo-Saxon model of enterprise, free-market ideology and a minimal role of the state.

However, the story of elites and capitalism in both states is still not over. Recent events and observations tell us that Estonia may have gone too far in the neo-liberal direction, while Slovenia has exaggeratedly leaned in the corporatist direction, with its extensive nationalisation regulation (still with a weakly shaped legal state) resulting in the rigidity of the labour market and taxation system, thus hindering ‘meritocratic’ principles and economic competitiveness. In order to overcome this weakness, in the last two years Slovenia’s new right-centre-oriented government has initiated some liberal reforms in these fields, although they have been cautiously (and partly) implemented. In Estonia, a segment of the political elite has already started to consider a bigger role of the (welfare) state (Steen, 2007). Put differently: part of the Slovenian elite would like to take over some liberal elements of the Estonian model and part of the Estonian elite would like to introduce some mechanisms for social protection and the alleviation of poverty and exclusion which function quite successfully in the Slovenian case. It seems that we have a paradoxical situation in the sense that the most successful models based on very different institutional principles have started to produce dysfunctional effects. It remains open whether the political elites in both countries will be able to find an appropriate strategy to cope with these effects and contradictions.

References


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Further readings


