The social cost of Slovakia's "investors paradise"

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During 2003, workers in the Slovakian Republic have faced an onslaught against their wages, social and working conditions. This has prompted widespread strikes throughout the public sector and private industry in opposition to the economic policies of the government of Prime Minister Mikulas Dzurinda.

The Dzurinda administration came to power in October 1998 as part of a "centre right" coalition and was elected for a second term in October 2002.

On January 29, railway workers held a six-hour strike in protest at government plans to cut 25 local rail routes—the first to be held nationwide since the separation of Slovakia from Czechoslovakia in 1993 with more than 70 percent of the railworkers participating. The action resulted in the complete shutdown of the national railway network and severed all international rail traffic into Slovakia.

The cuts in railway routes by the government were part of a general attack on public spending as it seeks to bring levels closer to the requirements of the European Union. Slovakia is planning to join the EU next year.

A second rail strike began on January 31 and was ended on February 3, following a ruling by District Court One in Bratislava that it was illegal despite the Slovakian constitution guaranteeing the right to strike. The railway workers' union central strike committee accepted this decision and ended the dispute.

On September 4, a demonstration involving hundreds of workers was held in the capital city of Bratislava. Protesters demanded a reversal of policies that have led to Slovakia being "the beggar of Europe". Other demands included a referendum on early parliamentary elections.

On September 26, more than 500,000 Slovakian workers participated in a one-hour general strike in a bid to force the government to negotiate over demands on pay, conditions, taxes and pension reform. Called by the Slovak Confederation of Trade Unions (KOZ), the action affected the Bratislava Volkswagen plant, up to 70 percent of elementary and secondary schools and civilian employees of the military. It also involved railway workers, energy and heating plant employees, workers at the largest hospitals in Kosice and Banska Bystrica, food-processing plant staff, mineworkers and Vahostav construction company staff.

The general strike was in opposition to government pans to reduce value-added tax on basic products and instead introduce a uniform income tax of 19 percent. The measures are due to be implemented on January 1. The KOZ is also calling for a monthly wage increase from 136 euros ($156) to 198 euros. The federation also demanded that the minimum monthly pension payment be increased to the "subsistence level" of 103 euros.

Over the past five years the Slovakian government has implemented a form of "shock therapy" favoured by the International Monetary Fund, including a raft of privatisations and tax breaks for companies and the rich. It now plans pension reforms and further cuts in taxes that pay for social costs such as health care. The recent spate of antisocial legislation by the Dzurinda regime is a continuation of this strategy in preparation for Slovakia's proposed entry into the EU in May 2004.

During this period the already large-scale influx of Foreign Direct Investment (FDI) into the country has been encouraged through measures to lower employment and investment costs on behalf of the transnational corporations. FDI has increased from $2 billion (56 billion Kc) to $10 billion since 1999. This represents a significant development in a state of just 5.4 million inhabitants.

An article entitled *Investors' paradise—Slovakia set to become the world's next small economic powerhouse* by Steve Forbes and published in the *Prague Post* on August 28 highlighted these issues. Forbes is the editor-in-chief of *Forbes* magazine. He refers to the economy of Slovakia as a "gem" and begins his article with the proclamation, "The Slovak Republic is set to become the world's next Hong Kong or Ireland, that is, a small place that's an economic powerhouse."

He continues, "Slovakia is about to enact a 19 percent flat tax for both individuals and corporations. The death tax is being consigned to the graveyard and the tax on dividends will be abolished. The government plans to chip away at the high payroll tax that funds various social programs, including health care. It is also considering ways to fundamentally reform its social security pension system, perhaps privatising a portion of it."

Forbes points out that the "work force is skilled, welleducated and stable. When people join a company in Slovakia, they want to stay until retirement. Students there have achieved some of the highest test scores in the world in math and science."

He adds that the "government has recently passed new labour laws for overtime and seasonal help that are among the most flexible in Europe. Wage rates are a true bargain at about $3 to $4 an hour—only 15 percent of the European Union average and 11 percent of Germany's. Unemployment is still high, at around 15 percent. There are plenty of well-trained, educated workers available for jobs. Living costs are also cheap—41 percent of the EU average."

The article points out that a market of 350 million people is located "within a days truck drive of Slovakia" and that it "joins the EU next spring, a move that will not only vastly encourage commercial relations with that immense market but also provide a springboard for those wishing to do business with Russia, Ukraine and other markets to the east and south."

An increasing number of transnational firms have established a foothold in Slovakia seeking to take advantage of the economic environment and pro-business legislation of the Dzurinda government in order to exploit the location, resources and low cost skilled labour of the working population. Investors in Slovakia include IBM, Kimberly-Clark and Volkswagen. The latter manufactures 300,000 autos per year in Slovakia. The French transnational Peugeot is to invest in a $750 million plant to produce 300,000 cars by 2006. Auto parts suppliers Dura, Johnson Controls, Delphi and Molex manufacture there and other companies in the parts industry intend to follow suit.

Electrical goods company Whirlpool has ended production in France and shifted its washing-machine production facility to Slovakia. A recent survey found that 91 percent of current foreign investors in Slovakia intend to increase their investment.

While there has been an undoubtedly marked increase in FDI into Slovakia and eastern and central Europe as a whole over the past decade, economists have pointed out that this phenomenon is not a static state of affairs. Recent research from the Economist Intelligence Unit (EIU) expects that foreign direct investment will shift away from EU accession countries in the coming year. Their data shows that while FDI this year is expected to be similar to, or even exceed, the record total of US$34 billion achieved in 2002, it will, despite their accession to the EU enlargement in the next year, show an overall declining share of regional FDI.

For the first six months of 2003 the EIU points to a "striking" year-on-year decline of FDI into the leading central European economies (the Czech Republic, Poland, Hungary and Slovenia). The organisation points to a rising trend in all the other sub-regions. Between 1998-2002, eight East European accession countries attracted almost two-thirds of the total US$143 billion FDI. This is expected to fall to below 50 percent of the projected US$200 billion of FDI between 2003-07. The EIU points to a decrease in "privatisation opportunities" and increases in wage costs during recent years by way of explanation.

The study shows that there has been a relocation of FDI to lower cost nations in Asia and in other sub regions.

While the relentless competition to attract investment into the economies of the former Stalinist states continues unabated, it is fuelling an onslaught against the social position of the working class.

Average national income in Slovakia stands at just $3,760.

Statistics published in October revealed that the average wage in Slovak industry fell by 4 percent in August. This followed a fall of 2.9 percent in July. Year-on-year, the average real wage in Slovakian industry fell 3.7 percent according to the Slovak Statistical Office. Industries surveyed included mining and the production and distribution of electricity, gas, and water.

The rationalisation and privatisation of former state industries has been a cornerstone of the policies of the Dzurinda regime and has created mass unemployment, which reached more than 20 percent at its height and was officially recorded at 14.5 percent in August. At that time Slovak Economy Minister Robert Nemcsics announced that new investment was critical and would enable unemployment to fall. The "fall" he was referring to would still see unemployment standing at about 12 percent, according to his own words.

Such future "investment" is precarious and dependent on a number of elements. One FDI project sees Slovakia in competition with the Czech Republic and Hungary to be the location for a new factory planned by the Korean carmaker Hyundai.

The rising level of social inequality has led to growing discontent evident in the strikes and anti-government demonstrations held this year. The Confederation of Trade Unions has responded by beginning a campaign to prepare a petition of 350,000 signatures required for the calling of early elections within two months.

The government is presently mired in a corruption scandal involving Dzurinda himself and new elections could be held if he were to resign as a result. A poll conducted by the Slovak Radio's Media Research Department found that 40 percent of those questioned were supportive of early elections.