

THE ROLE OF THE COOPERATIVE MOVEMENT AND THE TRADE UNIONS IN ADDRESSING THE CURRENT SOCIO-ECONOMIC CHALLENGES: THE CASE OF CYPRUS

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I. Introduction

The objective of this paper is to explore ways to address the current socio-economic challenges within the framework of the cooperative movement and the trade unions.¹ The context and scope of this analysis will basically draw from the Cypriot experience. For the design of an effective reaction function it is essential to understand and assess the environment within which economic activity takes place. In this regard, understanding the relevant economic structure and its dynamism may be extremely useful in a variety of ways.

“Economic structure may be defined as the essential characteristics and complexities of the private sector and of markets, as well as the pattern of policies and programmes of the public sector that affect these characteristics and complexities. It is important to note that economic structure influences the allocation of resources between alternative uses. For example, it may effect the allocation of resources between the private and the public sector.” (Theophanous 1988, p.4)

Obviously, the manner in which cooperatives and trade unions function, affects the economic structure and, thereby, significant variables. Likewise, policy changes by cooperatives and trade unions have the potential to generate an impact on the economic structure and significant variables.²

In the next section a general historical background regarding the development of the two organizations of the cooperatives and trade unions is provided. This review briefly describes the formation of cooperatives and trade unions - in a particular historical socio-economic context - and their role in the process of modernization and development. This includes a brief presentation of their contributions as well as of their shortcomings over time. Circumstantially, reference is also made to specific experiences of the cooperative movement and of the trade unions with the objective to broaden our understanding regarding both successes and failures. These experiences are utilized for the purpose of exploring how the cooperatives and trade unions can be effective in successfully addressing current problems and challenges.

In Section III the overall Cypriot socio-economic context is briefly assessed; this presentation is preceded by a short note regarding the existing international context. This methodological approach aims at highlighting issues which are relevant to the Cypriot socio-economic context. In Section IV some suggestions are put forward regarding ; possible ways to address the current challenges. The objective is to pursue an analytical approach which can be indicative of an overall philosophical and pragmatic policy perspective. Finally, in Section V some suggestions for further research are made.

II. General Historical Background

The cooperative movement and the trade unions began to grow in the beginning of the 20th century. Both forms of organisations have made substantial contributions to the cause of modernization and development. Over time, they have been successful in

substantially improving the standard of living of the average Cypriot and in promoting the democratization of society.

In order to continue to play a positive role in society they must avoid becoming victims of their own success. (Georgiou 1993). Likewise, complacency, bureaucratic inertia and lack of adjustment to a new dynamic socio-economic environment should not be allowed to hinder the progressive role of these two movements. This section briefly examines the historical development of cooperatives and trade unions. Reference is made to particular experiences and/or institutions in order to assess the overall process of the growth and development of these two forms of organisation.

(a) *The Cooperative Movement*

1. History and Evolution (with an emphasis on the cooperative financial institutions)

In the early part of the 20th century agriculture and mining constituted two major forms of economic activity (Neocleus 1993, p.1). People worked hard from early sunrise to late sunset all year round in order to earn a living. In addition, housing facilities and hygiene conditions were very poor. Overall, socio-economic conditions were very harsh (Christodoulou 1992, p.27).

Within this adverse socio-economic framework, it is worthwhile noting that the usurers, the grocers and the villages' head people, provided the only accessible source of credit facilities to farmers. The interest rate which was practically charged by the usurers ranged from 20% to 500%. Under these conditions it is hardly³ surprising that farmers were most often in debt and in the end unable to repay their loans, thus losing their land.⁴

The first attempt for cooperation which yielded no immediate results - because of the farmers' fear of exploitation - was undertaken by the British Director of Agriculture in 1904. He tried to advance the advantages of cooperation through a small booklet that he published (Neocleus 1993, p.1). Five years later, in 1909, in the village of Lefconico (now under Turkish occupation), under the guidance of a very influential school headmaster, who approached farmers with caution and inspiration, the Lefconico Village Bank was established (Theodorou 1992, p.5).

In 1914, the first Cooperative Law was enacted (based on the Austrian Cooperative Law) providing the legal background for the establishment of rural cooperative societies, independent of any government or outside influence (Cooperation in Cyprus 1975, p.1). The Lefconico Village Bank was registered under this law as a Cooperative Credit Society.⁵

In 1925 the Agricultural Bank of Cyprus was formed in order to provide long-term credit facilities to farmers through credit societies. "In ten years time 339 local credit cooperatives were formed and registered."⁶ However, these societies were perceived by people as lending and collecting agents of the Agricultural Bank. The underlying principles of cooperation, self-help and mutual help, was still absent (Theodorou 1992, p.6).

In 1935, a special Government Department of Cooperation was established with a Registrar for Cooperatives and professional staff who were responsible for the promotion, audit and supervision of the work of the cooperatives. From this time onwards the emphasis was on self-help and mutual help. These measures were so successful that in less than 20 years the Cyprus Cooperative Movement was self-financed. This growth was prompted further

with the formation of the Cooperative Central Bank by the local cooperatives in 1938.⁷

Thereafter, and especially after the advent of independence, the cooperative movement grew much stronger. More specifically, during the period 1960-1974, in parallel with the consolidation of the banking and consumer cooperative activities, attention was focused on cooperative marketing and processing of agricultural produce. Such cooperative activities included the export of citrus (SODEM, SELEK, SODEA, and SEDIGEP), the canning industry - so as to cope with the processing of fruits and vegetables (SEVEGEP) importing of general goods (SOGEK), importing of agricultural and other machinery (AGROTECHNICA) and acquisition and use of heavy machinery (GEOTECHNICA).⁸ Thus, it is worthwhile noting that the cooperative movement in Cyprus was embraced not only by the working class but also by the farmers and the lower-middle classes.

The cooperative movement suffered a serious setback during the dramatic events of 1974, when 227 cooperatives were displaced and many farmers became refugees and lost their property and thus were unable to repay their loans (Chlorakiotis 1982, p.2; Theophanous 1988, pp.125-160; Whitaker 1980). The property losses due to the invasion coupled with ineffective management, no proper banking practices and a series of non-viable investments in manufacturing during the late 1970's - early 1980's brought the cooperative movement to a serious crisis.⁹

After government inquiries, the Commissioner at the time was suspended, the committees of the Cooperative Central Bank and Central Cooperative Industries were removed, the law on cooperatives was radically revised in 1987 and a large loan was given to the Bank in return for more direct control by the Ministry

of Finance (Chlorakiotis 1982, p.4). Ever since these measures were enforced, deposits with cooperatives and the sales of cooperatives store societies have increased. (ibid., p.7) (See Table 1)

Today there is a cooperative society in nearly every village/area. Credit cooperatives are especially successful; an indication of this is that they command more than one-third of all bank credit (Neocleus 1993, p.4). A noteworthy success story is that of the Strovolos (suburb of Nicosia) Cooperative Society with banking services and other facilities which have established it as the major banking unit in the surrounding area.

At present, there are four main types of cooperative societies in Cyprus: the credit societies, the savings banks, agricultural marketing cooperatives and consumer cooperatives. The main functions of credit societies are to accept deposits from members and non-members, to give loans to members and to provide agricultural related products (fertilizers, pesticides, seeds) to members (cash or credit) and to non-members (cash) at low prices through the cooperative credit stores. Along with the expansion of the credit societies in the rural areas, another type of society was introduced into twos and other urban areas: the cooperative savings banks whose main function is to accept deposits from members and non-members and give loans (basically for housing) to members (Theodorou 1992, p.11).

All cooperatives have a common link through the Central Cooperative Bank, which acts as their central banker. The Central Cooperative Bank also carries out various other activities such as: commercial banking; importation and distribution of fertilizers, pesticides and seeds to members; government intermediary for the financing of agricultural projects. Another common link between the cooperatives is through the Registrar who reports to the

Ministry of Commerce and Industry. An independent Audit Service has been auditing the accounts of all the cooperatives since the 1987 amendment of the law (Neocleus 1993, p.3).

2. Assessment

Retrospectively, it is evident that the cooperative movement in Cyprus has grown in terms of number of members, range of activities and volume of transactions. Its contribution to the cause of development in Cyprus has been multi-dimensional with a significant impact on the socio-economic structure.

The creation of the Cooperative Central Bank has substantially contributed to the termination of the practice of usury which was predominant during the first few decades (1900-1940) of this century. Furthermore, it has helped low and middle income groups acquire their own housing (about 80% of housing loans are granted by the cooperative movement), provided funds which enabled low and middle income groups to pay for the education of their children abroad, and helped farmers have access to funds for running their operations (Theodorou 1992, pp.7, 11).

The cooperative movement has also contributed to the promotion and consolidation of the notion of thrift and, among other things, to the financing of rural investment.¹⁰ After 1974, the Cooperative Central Bank has also served as a vehicle for channeling government funds - through the cooperative societies - to the thousands of displaced farmers (Theodorou 1992, p.10).

It should also be noted that the existence of cooperative financial institutions has helped counterbalance the oligopolistic structure of the banking system. This has enormously helped the low and middle income groups. In this regard it is worthwhile repeating

that the cooperative financial institutions command more than one-third of the total demand deposits (Neocleus 1993, p.4). In relation to this, the cooperative movement has substantially contributed towards social stability in a variety of ways, such as the provision of relatively cheaper loans with more favourable conditions of repayment than the commercial banks.

The cooperative movement has also contributed towards: the development of consumer trade with the formation of cooperative shops and stores all over the island and almost in every village; the pooling and marketing of agricultural products with the formation of the cooperative marketing societies; the development of manufacturing with the formation of the cooperative industries.

Nevertheless, it must be pointed out that over time problems have appeared relating to the productivity and the effectiveness of these units. In this regard, it is important to stress that a successful approach in a particular period of time may no longer be the optimal approach in another context and framework. Overall, and this is a general characteristic of basically all forms of cooperatives in Cyprus, they suffer from lack of effective worker participation. Professional staff have been recruited by the typical cooperative and, in this respect organisation does not essentially differ from that of conventional public companies in the quasi-public sector.¹¹

In view of the imminent process of harmonization of the Cypriot socio-economic structure with that of the European Union, the cooperative organisations would have to adjust accordingly. Special attention should be paid to the cooperative financial institutions, the role of which is multidimensional. What should be avoided are the mistakes of the past such as the excessive risk taking by the cooperative movement in the early 1980's the absence of effective controls and normal banking practices and the lack of long term planning, which had led the cooperative

movement to a serious crisis.¹² It is hoped that the legal and organisational changes of the 1980's will help in this direction.

(b) *The Development of the Labour Union Movement in Cyprus*

1. The Evolution of Labour Unions in Cyprus

In 1910, the first labour club was formed in Limassol. However, the first trade unions, as such, were formed during World War I by port workers, porters and construction-workers. During the 1920's the number of such small trade unions began to grow; likewise, workers' centres serving as meeting places were created. It should be noted that left wing elements played an important role in the formation, promotion and development of trade unions (Christodoulou 1992, pp.28-30). Initially there was no legal framework covering union-related activities. Furthermore, the "rudimentary state of industry and the prevalence of self-employment did not favour the development of a working class nor, consequently, of trade unions" (Neocleus 1992, p.55).

Surprisingly, formal and legalized unionism came to Cyprus in 1932 from the initiatives of the (British) Labour Government's Secretary of State for the Colonies who wanted to introduce trade union legislation into all British colonies, as a result of "moral" pressure from the ILO (International Labour Organisation).¹³ However, in 1933 the Colonial Governor declared unlawful any organisation which had as one of its aim the organisation of a general strike. This, along with the absence of a strong working class and a tradition of activism, the inexperience of the organisers, the ideological prejudice against trade unionism (i.e. anti-communism and the general economic gloom in the 1930's led to a slow growth of unionism at first (Christodoulou 1992, p.31). (See Table 2).

Following the enactment of a more liberal trade union legislation (1941), the second All-Cyprus Conference of Trade Unions, all of which had an independent status, was held in November (1941) in Nicosia, and succeeded in forming the Pancyprian Trade Union Committee (PSE). In 1943, PSE declared openly its support for AKEL (the Progressive Party of the Working People) candidates in the municipal elections. This led to a split in the trade union movement on ideological grounds. Thus, a group of 'new' trade unions were established (Christodoulou 1992, p.33; Neocleus 1992). The Cyprus Workers' Confederation (SEK) was formed, with the participation of the unions the majority of which had several other links with PSE in 1944.¹⁴ Two years later (1946), the Pancyprian Trade Union Committee (PSE) was dissolved and reconstituted in 1948 as the Pancyprian Labour Federation (PEO) (Christodoulou 1992, p.35; Neocleus 1992, p.56). This union, to the present day, is affiliated with the left-wing party of AKEL.

Until Cyprus' independence in 1960 the socio-economic and political conditions were marked by intense strife. Tensions were very acute in both private and public sectors during the 1946-48 period. One of the toughest strikes took place at the Cyprus Mines Corporation in 1948 and lasted 120 days. Previously, in March 1944, a prolonged labour strike forced the colonial government to adopt the C.O.L.A. (Cost of Living Adjustment) principle. In 1949, the Cyprus Civil Service Association (PA.SY.DY) was founded, but was not officially registered as a trade union until 1966. The armed struggle against British colonialism during 1955-1959 and the focus on the national issue of Cypriot liberation had a disruptive influence on trade unionism (Christodoulou 1992, pp.35-36; Michaelides 1993).

With the advent of independence, the rights to organise, strike and enter into contract freely, were legally guaranteed by the 1960 constitution. In 1962 the four trade union federations (PEO, SEK,

POAS, and the Turkish Cypriot union TURK-SEN) and the Cyprus Employers' Consultative Association, signed a Basic Agreement which was the first serious step towards incipient "tripartism" concerning procedures for negotiations and settlement of disputes aimed at avoiding strikes and lockouts (Christodoulou 1992, p.37).

"If the labour legislation framework was modernised, however, the philosophy and practice of labour policy remained fundamentally unaltered. What did change drastically was the enthusiasm with which the policy of voluntarism in industrial relations was adopted by the new government and accepted by the employers and unions. Tripartite mechanisms, most notably the Labour Advisory Board, were reactivated, and the trade unions and employers were actively involved in the introduction and implementation of major labour policies. At the same time, however, the "Basic Agreement" - a procedural, not legally binding accord in the Scandinavian tradition - was successfully introduced to promote collective bargaining in good faith and to reduce industrial antagonism in the interest of faster socio-economic development. The success of tripartite cooperations and voluntary procedures for dispute settlement was also a result of the existence since 1959, of an organisation of employers: the Cyprus Employers' Consultative Association, later known as the Cyprus Employers' and Industrialists' Federation."¹⁵

Naturally, trade unions grew considerably during the first decade of independence.¹⁶ (See Table 2) At the same time, due to the growth of professional and white-collar employees, there was a boost in the number of existing or newly established (unaffiliated) unions, which had very little interrelation between or among themselves. Such unaffiliated unions which had been decidedly influential and successful were the civil service association, the

two teachers' organisations and the bank employees' union (Christodoulou 1992, p.39).

The Turkish invasion and occupation of 1974 struck the economy and the people of Cyprus harshly (Christodoulou 1992; Theophanous 1988, pp.125-160; 1991; Whitaker 1980). However, at this time organised labour showed its true strength and rose to the challenge of the occasion by taking an active part in mobilization and showing its positive solidarity in a number of ways. Organised labour played an important role in the tripartite approach to facing problems and even accepted necessary sacrifices in remuneration and benefits. (Christodoulou 1992, P.42; Neocleus 1992, pp.58-59). Nevertheless:

“[b]y 1977, when the economy had been reactivated, the emergency measures were practically terminated. Wages returned to their previous levels, a new indexation system was agreed upon for the following year, and dispute settlement procedures became voluntary again” (Neocleus 1992, p.59).

Ever since the recovery, and also taking advantage of the subsequent process of modernization and development, labour unions in the various sectors have made substantial gains for their members. It should be emphasized though that in the last few years, with visible signs of structural problems - budget deficits, deterioration of the international competitiveness of Cyprus and so on - strife between employers and unions has become again a major issue.

2. Assessment

The labour union movement has substantially contributed to the process of socio-economic development and the overall democratization of society.¹⁷ Over time, the contributions of trade

unions have been diverse and significant. Through strife and harsh conditions trade unions have been able to serve the labour movement. The Cost of Living Adjustment (C.O.L.A.), the Social Insurance Scheme, the hours of work, the minimum wage rate, job safety and health, the Redundancy Law and the Law for Annual Holidays, and increases in wages and salaries through collective agreements are some of the major achievements of the trade unions throughout the years (Christodoulou 1992, pp.34, 36-41; Neocleus 1992).

Furthermore, one cannot ignore the significant contribution of the labour unions in the reconstruction period after the 1974 Turkish invasion which contributed to the achievement of the Cyprus "economic miracle." (Cyprus 1977, pp.50-51; Christodoulou 1992; Theophanous 1988, pp.125-160, 1991; Whitacker 1980). At this point we should be reminded that during the period 1960-1974, and especially during times of intercommunal crisis, trade unions exhibited self-restraint in their demands. Undoubtedly, the successful economic record of Cyprus during the period 1960-1973 is not unrelated with the moderate approach exhibited by the trade unions.¹⁸

Trade unions still remain highly influential with no signs of decline in their membership. More specifically, up to 85% of the employed population belong to unions thus indicating their significant power in Cyprus (Neocleus 1992, p.60). In certain sectors of the economy, especially the broad public sector, unions have achieved, as already stated, benefits considered by a sizable portion of the population excessive and beyond the means of the economy. These unions should not become victims of their own success.¹⁹

During the coming years, the unions will have to deal with the "economic adjustment problems as Cyprus draws closer to the

European Community [Union] and the consequent liberalization of trade.” (Neocleus 1992, p.60). Indeed, the problems and the challenges posed by the new evolving economic structure are multidimensional. The approach and the policies of unions will definitely have a significant impact on how Cyprus will perform in the years to come.

“In regard to their socio-economic targets, the unions are likely to put greater emphasis on the improvement of social insurance, medical aid, and education; the elimination of discrimination against women workers; the promotion of worker participation and industrial democracy in the enterprise; and the formation of a coordinating body of all national union centres.”²⁰

III. The Current Socio-economic Environment in Cyprus

(a) *General Context*

For a meaningful appraisal of the potential role of cooperatives and trade unions and their multidimensional participation in the process of production and of the distribution of the GDP, it is essential for them to understand the existing socio-economic structure in Cyprus. This entails - among other things - a comprehension of the particular characteristics of the Cypriot economy, its comparative advantages and disadvantages, as well as the evolving trends. This approach is based on the philosophy that for each particular situation a given set of policy measures is appropriate. Along the lines of the school of thought known as Rational Expectations, it can be surmised that what was an appropriate policy set at a particular period of time and point in the economic path of a development of a country or a group of countries, may not be the optimal approach in a different time context.²¹ This fundamental lesson should be understood by these two organisations - cooperatives and trade unions - so that

mistakes are avoided and, simultaneously, an effective approach is designed.²²

Before we turn to the presentation of issues in Cyprus it is worthwhile mentioning that major problems exist not only in developing countries but also in developed societies.²³ Rising unemployment as well as underemployment constitute major problems in all countries. Furthermore, alienation constitutes a socio-economic problem seriously afflicting modern societies. Poverty, unemployment, alienation and unfulfilled expectations are not unrelated to the social problems posed by drugs, crime and violence.²⁴ Likewise, it should also be noted that in most countries macro-economic problems do exist, such as growing budget deficits and public debts. This picture becomes even more gloomy in view of the fact that in several countries the welfare state structures face increasing economic strains.²⁵

One should also pay particular attention to another major characteristic of the new evolving economic structure; the increase of the relative size of the tertiary sector and the simultaneous relative decrease of the contribution of the primary and secondary sectors. This development has naturally been accompanied by a change in the labour composition as well as by different needs. Obviously, challenges do exist which affect all aspects of life in modern societies (Drucker 1994).

Neoliberalism constitute an ideological response to these new challenges; moreover, at least some of the major messages of neoliberalism are still influential today. In view of increasing deficits, inefficient public bureaucracies, decreasing productivity and so on, neoliberalism calls for more reliance on private initiative and for less state interference in the economy.

Thatcherism and Reaganism constituted, more or less, a manifestation of this trend.

Given this new trend, it should be realized that the cooperative movement and the trade unions must design an agenda which must be based on both pragmatism and vision. Such an agenda can push forward the cause of economic democracy as well as economic efficiency.

(b) *The Cypriot socio-economic context*

In 1974 Cyprus faced a catastrophe of biblical dimensions (Christodoulou 1992; Theophanous 1988, pp.125-160; Casdaglis 1976; Hitchens 1984). Yet the country survived, the economy was successfully revived, the pace of emigration was gradually reduced and, eventually, after 1980, reversed. The Cypriot economic recovery and subsequent process of growth, modernisation and development, was so successful that it has been described as an “economic miracle” (Cyprus 1977; Christodoulou 1992; Theophanous 1991). It should be stressed that the contribution of the Cypriot labour in this process was indeed crucial. In addition to exhibiting a high work ethic all the labour unions agreed to a 25% cut in salaries, a wage freeze and a virtual ban on strikes. Regarding the latter, it should be noted that special procedures were introduced for dispute settlement, thus, effectively minimizing strikes. The overall agreement was also backed by the cooperative movement and the country’s strong left-wing party AKEL (Cyprus 1977; Neocleus 1992, pp.58-59).

Twenty years after the events of 1974 one can certainly talk about a metamorphosis of Cypriot Society. yet, behind the economic miracle, major socio-economic problems exist which, if not adequately addressed, may undermine what has been achieved by so many efforts and such a great commitment. At this point we

should be reminded that “any meaningful discussion of the Cypriot process of growth and development should take into serious consideration the political realities and the continuing repercussions associated” with them (Theophanous 1991, p.105).

A major problem is the growing structural budget deficit. This should also be seen in relation to the growing public debt. (See Table 4). These problems are not unrelated with the fact that there is in Cyprus an inefficiently run civil service, characterised by overstaffing, low productivity, bureaucracy and lack of flexibility. A similar situation exists in significant aspects of the quasi-public sector; it is hardly surprising that some of the companies in the quasi-public sector do experience losses.

It should also be noted that most cooperatives basically function along similar lines with the quasi-public sector enterprises. Consequently, the characteristics of bureaucratic control and inertia, alienation, lack of participation and so on are phenomena not unknown to this type of organisations as well. It is for this reason that a new approach is required in order to overcome problems.

What is worthwhile noting is that in Cyprus there exists a gap regarding salaries, the overall benefit package and the working conditions and terms, between the public and broad public sector on the one hand and the private sector on the other (Christodoulou 1994; Theophanous 1994). It is underlined that in developed societies, jobs in the private sector involve a superior package than similar ones in the public and the broad public sector in order to balance the increased job security (tenure) of public servants; yet in Cyprus the reverse is true. This has created, over time, serious socio-political and economic problems. For example, nepotism has been encouraged as well as a patronage and a client relationship

system between citizens and the political parties which influence appointments directly and indirectly. This state of affairs leads to the loosening of social cohesion and a higher degree of alienation.

The cooperative movement and the trade unions cannot afford to ignore these serious problems. We should be reminded that the unions of employees in the civil service and of the quasi-public institutions have achieved for their members an overall package which seems to be beyond the capacity of the economy. Consequently, this has led to allegations, even by fellow workers in the private sector, about privileged jobs and unfairness and has bred resentment.

It should be also noted that there is a high correlation between the overall package offered to employees in the civil service and to those in the quasi-public sector. What practically happens is that when the union (s) of quasi-public employees earn higher salaries and more benefits, based on their great bargaining power since they supply essential services (i.e. electricity, telecommunications), the union of the civil servants follows with similar demands, which are usually satisfied for reasons of "equal treatment." Certainly, the reverse also occurs. This has led to high salaries and benefits for employees in these two privileged sectors, to the resentment of the rest of the members of society.

This practice has led to several paradoxes. For example, employees working in the civil service receive a package irrespective of the state of affairs either of the public finances or the overall economy. Similarly, employees in the quasi-public sector receive a similar package irrespective of the fact that the public company they work for may be making losses. To illustrate this, it should be noted that the personnel of the Cyprus Airways still make demands for higher salaries in spite of the fact that the company is suffering big losses.

Another major concern is that, in the last few years the manufacturing sector of Cyprus has witnessed severe problems of competitiveness. In the years just after 1974 the model of production was based on labour intensive units. This method was successful during that period as it provided profits for the entrepreneurs while it simultaneously generated many jobs.

Lack of change in the techniques of production - perhaps protracted by a policy of protection - has rendered the Cypriot manufacturing sector unable to compete in the European Union and internationally. The trade deficit of Cyprus which increases over time, constitutes a symptom of this malaise. (See Tables 3 and 4; Imports, Exports, and Trade Balance respectively).

In view of the growing structural problems relations between the unions and employers have become very antagonistic. Accusations and counter-accusations seem to be a usual phenomenon. The climate of understanding, cooperation and overall social cohesion - which was prevalent in the aftermath of 1974 - does not seem to exist today. Instead, often both employers and unions remain attached to their positions and fail to follow a win-win approach.

Again it should be stressed that from sector to sector the initial conditions - labour benefits, positions of the respective sides and so on - do vary. For example, in the public sector, although civil employees enjoy an overall favourable package, their union makes more and more demands without due consideration to the existing economic conditions; consecutive governments do not seem to be eager to really resist these demands because of fear of a possible political costs. On the other hand, conditions in the manufacturing sector are not favourable for the workers. Suffice to note that salaries and benefits are not high while simultaneously union demands are met by stiff opposition by the employers.

Furthermore, in view of the application of Cyprus to the European Union for full membership, sooner or later, harmonization of the Cypriot economic, social and legal structures with the respective ones in the Union would have to take place. Old practices will have to be abandoned, adjustments must be made and innovations be introduced. For example, currently the Cooperative Banking System is hardly under the supervision of the Central Bank. Inevitably though at some point in the near future this will have to take place. That entails far-reaching repercussions for the Cooperative Banking System.

There are also pertinent socio-economic issues to be addressed such as a fairer distribution of income and wealth, the need for improving social services like health and so on. Regarding the latter it is noted that currently a debate is going on concerning the designing of a national health system.

In sum, given the current socio-economic context in Cyprus ways must be sought through which the process of modernization and development should continue. The cooperative movement and the trade unions have over time, more or less, responded successfully to problems and challenges. In the past Cyprus used to be a developing country; now Cyprus belongs to the club of developed countries and aspires to become, soon, member of the European Union. Obviously, the way comparisons are made will be altered; inevitably, requirements will be qualitatively more demanding. The cooperative movement and the trade unions face new challenges and it is expected that they would respond accordingly.

IV. Addressing the Challenges

The principal socio-economic objectives of the Republic of Cyprus are two-fold:

- (a) the consolidation of the achievements made during the last two decades;
- (b) the further development of the country.

The second objective, "further development," practically consists of two vital dimensions: on the one hand, addressing effectively the socio-economic problems and challenges (presented in Section III), and on the other hand, achieving a higher social welfare indifference curve. Perhaps Myrdal's (1974) perceptions of "development" as an upward movement of the "social system" may be instrumental in providing guidelines in our attempt to define our objectives for the Cypriot case. Myrdal defined development as the upward movement of the entire social system.²⁶

In the case of Cyprus as we approach the end of the 20th century a paradigm of development could include a serious attempt to move towards economic democracy. Nevertheless, it is also essential not to ignore the efficiency aspect of the new paradigm; otherwise, it may not be successful. Thus, while blue and white collar employees may increase their participation in the process of production and their share of distribution of the GDP, it is important that an incentive structure is incorporated in the whole system. This would serve as a mechanism to ensure that productivity and efficiency are not neglected.

A strong economy constitutes also the most important base on which the Republic of Cyprus can rely in its efforts to re-establish the territorial integrity and consolidate its sovereignty and independence. Indeed turning Cyprus into a model-state can facilitate the promotion of a solution to the Cyprus problem in a variety of ways. Among other things, the more prosperous and

democratic the Republic of Cyprus is, the higher the incentive for the Turkish Cypriots to seek reunification of the island (Christodoulou 1992, pp.290-293; Theophanous 1991, p.121).

There is no doubt that the cooperative movement and the trade unions can play a vital role in the socio-economic outcomes in the years ahead. What is essential to remember is that, it is imperative for the economy to enhance its productivity in all aspects and thereby reverse the recent adverse record in international competitiveness (Psaras 1994). Furthermore, what is perhaps most pressing and critical is a new social contract which can be brought about through the "tripartite" mechanism: open negotiations among the unions, the employers' federation and the government. Such a social contract should be built on a consensus with the common objective to face the challenges and also broaden and deepen development in all its dimensions (Myrdal 1974). Certainly, such a process will have to be based on promoting and balancing equity and efficiency. Given the current state of affairs in the Cypriot economic structure, there is a domain in which these two goals - efficiency and equity - can be both promoted, in spite of the theoretical proposition of an existence of a trade off between these two objectives. A major objective of a new social contract would be the achievement of an overall convergence regarding the terms of employment - in all aspects - between the public and the broad public sector on the one hand and the private sector on the other hand.

In recent years trade unions have mostly concentrated on issues directly relevant to the welfare of their own members. The objectives were to increase salaries and other benefits, improve working conditions, terms of employment and so on. Although from time to time trade unions get involved in broader issues of national concern, it is important that tripartite mechanisms on such issues become institutionalized. These include the improvement of

efficiency, productivity and therefore the competitiveness of the economy. Likewise, the generation of more jobs is also particularly important. The latter may be examined in relation to labour market problems such as foreign workers, black market (unregistered workers) and lack of skilled blue-collar workers.

In order to promote these objectives an overall consensus - sectorally and nationally - involving employees, employers and the government is imperative. For example, a new incomes policy and a national health system require the consensus of all parties involved. Given the current situation, it may be useful to promote a new approach of open and free negotiations the major objective of which will be to agree on major guidelines regarding crucial issues such as the state of affairs of the economy, productivity, competitiveness and so on. Thereafter, these guidelines could be useful for the purpose of reaching agreements at a sectoral level.

Trade unions cannot put forward demands which tend to undermine not only the efficiency and the competitiveness of the whole economy but also damage their own image and credibility in society (Georgiou 1993). For example, in the civil service repeatedly the unions demanded the creation of posts irrespective of requirements and constraints. Note that the creation of new posts was associated with the "upgrading" of existing high officials in a variety of ways. Consecutive governments failed to resist such demands because it was an opportunity to help distribute favours to supporters. Although several times there was rhetoric about a "moratorium" regarding the creation of new posts, it was not really taken seriously. The structural deficit and the debt problems are not unrelated to this scenario. Consequently, it is important that legislation is promoted which puts an end to excesses.²⁷

Trade unions can play a vital role in the promotion of development by contributing to the designing of a policy package widening and deepening social services. In this aspect one may see that one of the dimensions of trade unions in our era is to transcend themselves beyond the personal and sectoral interests of their members. With the new suggested role the “social wage” of every individual employee will increase.

A major challenge, as already stressed, is posed by the adverse competitive record of the manufacturing sector. In this regard, it must be noted that addressing the arising problems may depend on two significant general responses, which would be part of the proposed new social contract.

First, the trade unions should press for the commitment of the employers’ federation and the government to adopt measures towards the modernization of the manufacturing sector in a manner which will naturally lead to an increase of labour productivity. So far, the employers have been stressing that labour demands for higher salaries and more benefits should be minimized as a means of improving the competitive edge of the manufacturing sector. In addition, the employers’ federation has challenged the system of the C.O.L.A. because, according to them, it leads to an increase of the costs and thereby to the worsening of competitiveness. Naturally, the trade unions have refuted these demands. What may seem as a way out is an overall agreement - entailing both short-run and long-run provisions. In the short-run labour demands could be revised downwards subject to a commitment by the federation of employers that measures should be adopted for modernization and technological upgrading and, of course, higher labour benefits in the future.

Second, and this may be quite innovative, workers’ cooperatives may be encouraged to be set up in order to take over ailing firms.

For such a development a new legal framework and a favourable economic climate are required (Shah 1992). Such an approach may well promote both economic democracy and efficiency if carefully studied and implemented.²⁸

This can be promoted practically by both public policy as well as by substantial support from the trade unions and the cooperative movement. For the sake of illustration, let us take the case of ailing firms with personnel ranging from 10 to 25, which will be taken over by workers. Given that they have been facing problems it will be essential to go through restructuring. Definitely, professional managers/technocrats would have to be appointed as well. These managers would be expected to acquire - like the rest of the employees - a personal interest in the company; i.e. their share of stock. Such an approach has the potential to promote both economic democracy and efficiency. For example, this organisational structure will not suffer from the disadvantage of modern corporations in which management is divorced from control. Furthermore, complacency - which is a common phenomenon in the broad public sector - would be avoided since survival will depend on performance and success in the market place. Moreover, such small and medium-sized firms will be owned by their employees. Within this model, issues such as tenure, fair distribution, efficiency, flexibility can be addressed effectively.

At this point we should be reminded that in the aftermath of 1974 and in order to encourage recovery, President Makarios laid down a major rule: the government should assist, but never try to dominate, the private sector (Cyprus 1977). Specifically, in mid 1975, Makarios declared that even if the government initiated an enterprise and financed it completely, it should be run by the private sector because "personal interests would be a motive and

incentive” for efficiency (ibid.). The same motto - “personal interests would be a motive and an incentive” - can now be utilized in order to promote both efficiency and economic democracy. Such an approach would most likely overcome problems of alienation, lack of participation and efficiency.

In a pluralist society, there will be always room for different models of firms and organisations. Nevertheless, if the suggested experiment is successful, inevitably the benefits may spill over to other sectors, while simultaneously new innovations may ensue.

V. Suggestions for Future Research

The cooperative movement and the trade unions have made substantial contributions to the process of growth, modernisation and development of Cyprus. In order to continue to play a significant role in the socio-economic affairs of the country, it is essential that these two broad institutions understand the current socio-economic context and the changes which have occurred in the economic structure over time as well as the new evolving trends.

Definitely a sectoral approach accompanied by case studies can shed more light regarding particular issues and problems. Nevertheless, such studies could be pursued having always in mind the “global” picture of the national economy on the one hand and the broader relevant economic environment on the other hand. In this regard it is important to highlight the significance of economic structure in designing an effective reaction function to problems and challenges.

Among the issues which need to be addressed urgently is the state of affairs in the civil service, public finance and the policies pursued by respective governments and the civil employees’ trade

union (P.A.S.Y.D.Y). Such a study can come up with suggestions regarding ways to increase productivity, to decrease expenditures, to encourage meritocracy and, moreover, to pave the way for the generation of a new social contract.

Particular attention should be given to the generation of a social contract - built on consensus - which will address problems, challenges as well as issues and objectives of further development and democratization of society. Such a social contract presupposes the good will of the parties involved as well as a deep study and analysis of the multidimensional issues and policy concerns.

Given the new economic structure, particular attention is also given to the potential of converting ailing firms into workers' cooperatives. This presupposes the purchase of such firms by their employees. The objective is to promote both efficiency and economic democracy. Nevertheless, such cooperatives should not acquire the existing organisational structure of similar units. Instead, direct employees' ownership and participation should be sought. perhaps, pilot cases could be encouraged in order to further explore the potential of such cooperative units.

Table 1
 Deposits with Cooperatives and
 the Sales of Cooperative Store Societies*

YEAR	Deposits with Cooperatives £** (millions)	Sales of Cooperative Stores £ (millions)
1977	78,5	16,5
1981	153,0	29,8
1983	235,2	35,5
1984	286,3	37,6
1985	335,9	38,1
1986	396,2	35,9
1987	479,7	37,8

Source: Chlorakiotis E., **Report of the Commissioner (1987) of the Cooperative Movement**, Nicosia 1989, pp. 11-19.
 Chlorakiotis E., **Report of the Commissioner (1978-1981) of the Cooperative Movement**, Nicosia 1982, p. 7.

* Reference is made only to the area controlled by the Government of the Republic of Cyprus.

** One Cypriot pound (£) is roughly equivalent to two U.S.A. dollars (\$). On September 16, 1994, the exchange rate was 1 Cypriot pound (£) to 2,1 U.S.A. dollars (\$).

Table 2

Evolution of Trade Unions in Cyprus

	1932	1935	1936	1937	1938	1939	1940	1942	1952	1962	1972	1979*
No. of Unions	1	2	5	6	14	46	62	73	114	179	110	97
Total Membership	84							9.991	16.094	64.770	87.655	112.954
Degree of Unionization (union membership as % of working class estimates)	--							16 (1945)	--	55	67	95
Women Members (% of total membership)								8,6	11,7	20,3	27,1	34,3

* Figures for 1979 refer only to unions and workers in the area controlled by the Government of the Republic of Cyprus.

Sources: Avraamides (1958), Slocum (1972) and Christodoulou (1992).

Note: As Christodoulou (1992, p. 42) states, the detailed picture and statistics concerning the trade union structure stops in 1979 as the Ministry of Labor and Social Insurance decided to publish no more official figures due to disputes about the respective strength of unions. Some more recent reports - published by unions - indicate that up to 85 % of the labor force belong to unions.

Table 3

IMPORTANT SOCIOECONOMIC INDICATORS

	1973	1992*
Population	634.000	585.000
Gross National Product (£ mln, current prices)**	341	3.100
Per Capita Gross National Product (£)	538	5.321
Unemployment Rate (%)	2,5	1,8
Inflation rate (%)	7,8	6,5
Fiscal deficit (£ mln)	12,2	147,6
Fiscal deficit as % of GDP (%)	3,7	4,8
Arrivals of Tourists	265.000	1.991.000
Tourists per person	0,42	3,40
Revenues from Tourism (£ mln)	23,4	694,0
Export of Goods (£ mln)	57,2	429,9
Import of Goods (£ mln)	134,5	1.303,6

- Sources: 1. Economic and Social Indicators 1992, Planning Bureau.
 2. Annual Report 1993, Central Bank of Cyprus.
 3. Theophanous A., The Economic Aspects and Consequences of a Federal Solution to the Cyprus Problem, Intercollege Press, 1994.

* Reference is made only to the area which is controlled by the Government of the Republic of Cyprus.

** One Cypriot pound (£) is roughly equivalent to two U.S.A. dollars (\$). On September 16, 1994, the exchange rate was 1 Cypriot pound (£) to 2,1 U.S.A. dollars (\$).

Table 4

SELECTED ECONOMIC INDICATORS

	1990*	1991*	1992*
Current account balance, (£ mln)**	- 71,8	- 204,1	- 297,9
Current account excl military, (£ mln)	32,2	- 98,8	- 135,3
Current account excl military and aircr, (£ mln)	48,5	- 98,8	- 86,9
Current account / GDP	- 2,8 %	- 7,7 %	- 9,6 %
CA excl military / GDP	1,3 %	- 3,7 %	- 4,4 %
CA excl military and aircraft / GDP	1,9 %	- 3,7 %	- 2,8 %
Trade balance incl military (£ mln)	- 761,0	- 782,0	- 1092,0
Trade balance / GDP	- 29,4 %	- 35,4 %	- 24,5 %
Fiscal deficit (£ mln)	136,1	182,4	147,6
Fiscal deficit as GDP	5,3 %	6,8 %	4,8 %
Total public debt all included, (£ mln)	1.834	2.139	2.484
Domestic, (£ mln)	1.234	1.451	1.814
Foreign, (£ mln)	600	688	670
Public debt excl intragovernmental, (£ mln)	1.298	1.513	1.741
Total public debt all included / GDP	72,1 %	80,3 %	80,5 %
Domestic / GDP	48,5 %	54,5 %	58,8 %
Foreign / GDP	23,6 %	25,8 %	21,7 %
Public dept excl intragovernmental / GDP	51,0 %	56,8 %	56,4 %

Source: Ministry of Finance, 7.9.1994

- * Reference is made only to the area which is controlled by the Government of the Republic of Cyprus.
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NOTES

1. See Munkner (1991). Philosophically, Munkner states that “[t]he idea that the trade unions and cooperatives, as workers’ organisations, are integral parts of the labour movement ... dates back to the 19th century” (p.7). It should be pointed out though that in the case of Cyprus the cooperative movement was embraced not only by the working class but also by the farmers and the lower-middle classes.
2. Certainly, though, the economic structure in its turn may affect the way unions and cooperatives function.
3. More often than not farmers dared not question these rates for fear of being deprived the credit facility that was offered to them. For more details see Theodorou (1992).
4. During the period 1920 and 1935, because of thousands of forced sales of farmers property, the colonial government was forced to set up a Debt Settlement Board to cope with the problem and stop the rural areas from going into complete ruin. See Theodorou (1992, p.5).
5. Progress during these first years was very slow and there was only a small number of new cooperatives. See Theodorou (1992 p. 5).
6. During the period 1925-1935, 339 cooperative credit societies were created. See Chlorakiotis (1982, p.2).
7. Since then, the progress of the cooperative movement was steady. Despite the unfortunate split of the cooperative movement into Greek and Turkish with the independence of

Cyprus in 1960, the number of cooperatives reached 832 just before the Turkish invasion of 1974. See Neocleus (1993, p.2).

8. See Chlorakiotis (1982, p.2). According to Christos Demetriades (Ministry of Finance), the consolidation of the banking and consumer cooperative activities took place due to the inability of the consumer cooperatives to survive.

9. See Neocleus (1993, p.2). Furthermore, according to Demetriades, the non-viable investments were encouraged by certain politicians and businessmen who wanted to undermine the cooperative movement.

10. More specifically, the introduction of the School Savings Scheme in 1950, in primary and secondary schools. Weekly deposits were collected by teachers and deposited with cooperative credit societies or cooperative saving banks. This promoted the concept of thrift and provided an additional source of savings. Thus, Cyprus today provides an excellent practical example of attaining self-finance through thrift. See Theodorou (1992, p.10).

11. Thus, most cooperatives which started out as genuine worker/farmer cooperatives, where members managed their own affairs, have today retained little of their previous self-control character. The increasing complexity of operations, urbanization and the need for managerial expertise have led to changes which marginalized effective worker/farmer participation. Moreover, relatively high benefits to employees as well as tenure have contributed towards the creation of complacency and bureaucracy. See Neocleus (1993, p.4).

12. See Neocleus (1993, pp.4-5). It should be also stressed that the 1974 Turkish invasion created crucial problems. See Whitaker (1980), Theophanous (1988, pp.125-160).

13. Unions were legalized on January 8, 1932, with the enactment of the Trade Unions Law which considered the formation of trade unions as a natural and legitimate consequence of social and industrial progress. Thus, on May 11, 1932, the first trade union (a shoe-making workers' union with eighty four members) was registered under this law. See Christodoulou (1992, p.29).

14. See Neocleus (1992, p.56). Furthermore, in 1943, the Turkish Cypriot political elite, formed the confederation of Turkish trade unions. See Christodoulou (1992, p.33).

15. See Neocleus (1992, pp.57-58). This Basic Agreement regarding "tripartism" may be viewed as "a gentlemen's agreement".

16. In 1962, 19 trade unions withdrew from the Cyprus Workers' Confederation (SEK) to form a new group, the Democratic Labour Federation (DEOK), which in 1966 reached 1674 members, but by the 70's it was down to an estimated 500 members. DEOK regained some size during the 1980s; in 1991 it claimed more than 6,000 members. See Christodoulou (1992, p.39) and Neocleus (1992, p.63).

17. It should be noted though that political and ideological matters were always a source of strife among unions. Even after the 1974 Turkish invasion, the rivalry between the two main confederations, PEO and SEK, continues. Furthermore, DEOK tries to challenge both by taking a harder working class line with a "syndicalist rhetoric." All three unions have differing

ideological backgrounds and are affiliated to political parties. PEO is linked to AKEL, SEK to the nationalist right wing groups and DEOK to the Socialist Party (EDEK). See Christodoulou (1992, p.43).

18. In Neocleus (1992 p.58) one can see that trade union activities and demands during the period 1960-1974 were moderate.

19. Certainly, they ought to act in a way which does not breed resentment, otherwise the whole labour movement may suffer setbacks. See Georgiou (1993).

20. Finally, trade unions will continue to play a role in the efforts for a solution to the Cyprus problem. Given the appropriate circumstances the possibility of an upgraded role should not be ruled out. See Neocleus (1992, p.60).

21. For an interesting and informed reading see: Lucas and Sargent (1978) and Sargent and Wallace (1976).

22. In this regard it is underlined that it may not be advisable to rely on methods and procedures used in the past, even though they proved successful.

23. For an interesting and informed reading see Alogoskoufis and Manning (1988), Bean, Layard and Nickell (1986); Blackaby and Manning (1990), Nickell (1990), Helliwell (1988), Jackman, Pissarides and Savouri (1990), Jackman and Roper (1987), Bruno and Sachs (1985) and Bean (1994).

24. It is no coincidence that in many countries these issues rank very high on the political agenda. For example see ‘Raging Bill’ (1994).

25. For an informed reading see Barr (1992). Furthermore it is worthwhile referring to an indicative case study: According to OECD (1984, p.49) in the Netherlands, “[t]he determined efforts of the authorities to lower social security benefits are necessary both to reduce public expenditure and improve the flexibility of the labour market and the prospects for investment.” Furthermore, see “A Cure for Health Care” (1993).

26. Myrdal (1974, pp.729-30) describes the “social system” as that which ... “encloses, besides the so-called economic factors, all non economic factors; including all sorts of consumption by various groups of people; consumption provided collectively; education and health facilities and levels; the distribution of power in society; and more generally economic, social and political stratification; broadly speaking, institutions and attitudes to which we must add as an exogenous set of factors induced policy measures applied in order to change one or several of these endogenous factors.”

27. For example, in key sectors such as the civil service and the quasi-public sector, issues for third party reference could be precisely defined and the right to strike should be qualified.

28. According to Shah (1992, p.513): “[t]he large potential of cooperatives for promoting development has already been extensively researched and is borne out by practical experience with cooperatives in many countries. They have been successful in providing much needed services to their members in the fields of agricultural marketing and supply, consumer goods, housing, credit and savings, etc. In some countries cooperatives

even command a major market share in certain sectors (dairy produce in Denmark, agriculture in Japan, dairy and oilseed production in India, insurance and transport services in Singapore, to name just a few examples). It follows that a law conducive to the development of cooperatives could have a strong and beneficial impact on overall development”.

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