Welfare and Democratization – Comparing Croatia, Serbia and Macedonia

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Abstract

The article discusses the main determinants of welfare transformation after the regime change from communism towards democracy. The states of the former Yugoslavia, notwithstanding a common welfare state structure, albeit at different quality levels, after departing communism developed diverse trajectories. In response to the wars, war-related consequences and growing economic pressures, the national political elites in Yugoslav successor states initially extended welfare provisions and thus thwarted popular mobilization. The international actors’ agenda gained ground in a setting characterized by nationalistic resentments, popular disorientation and elite capture. What the analyzed country cases suggest is that democratization has contributed to making reforms more responsive to public concerns. On the other hand, ‘defective’ systems continue to impede economic development and compromise the welfare state’s redistributive role.

Keywords

Welfare state; Democratization; Post-communism; Former Yugoslavia; Croatia; Serbia; Macedonia

Introduction

Two decades after the fall of communism, the Balkan states, as perceived by their peoples, are ‘pretty miserable’ (Economist 2012). This is hardly the outcome which was expected after such an historical shift. Although the main force driving the change was the aspiration towards joining the club of developed, Western democracies, the expectations were not merely political. Democracy was expected not only to enable political participation and the possibility to vote out an incompetent government, but also to accelerate economic development which would lead to an improvement of the populations’ living standards (Rüb 2004: 22). Evidence across the post-communist world has suggested that while most societies were happy to get rid of one-party rule, social protection, welfare facilities and full employment were highly

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valued (Lewis 2010: 322). What they eventually got, in terms of welfare outcomes, was pretty diverse.

The literature on post-communist welfare states has so far not found a common explanatory framework. Exploration of convergent or divergent patterns of development and their causality has been at the forefront of academic debate, while the creation of a distinct post-communist welfare model remains highly contested (Stambolieva 2011). Over time a consensus seems to have been forged around the combination of factors defining welfare state restructuring, such as the existing historical institutional setting, socio-economic cleavages and the influence of international institutions (Orenstein 2008; Cerami and Vanhuysse 2009; Stambolieva 2011), even if opinions differ regarding the importance of each or the inter-relationship between them. The debate essentially revolves around two main discourses: one claiming that with the shift from universal to individual-based social security provision and the retreat of the state in favour of the market, a kind of ‘liberal’ or ‘residual’ welfare state has emerged; the other arguing that East-Central European states have not yet succeeded in getting rid of the legacy of the ‘communist’ welfare state (Kovacs 2006; Bohle and Greskovits 2007; Inglo 2008; Schubert et al. 2009; Fuchs and Offe 2008; Cook 2010; Myant and Drahokoupil 2011). The first discourse underlines the role of the ‘neo-liberal’ agenda advocated by the international financial institutions, while the second one incorporates the ‘path-dependency’ argument. There is also a third discourse, which although borrowing concepts from the other two, avoids making straightforward claims and regards the new welfare states as ‘hybrid’ forms (Kovacs 2006; Haggard and Kaufman 2008; Cerami and Vanhuysse 2009).

This brings us to the question: is there a framework for the study of post-communist welfare states, based on which we can make informed conclusions about their development? While the literature on the advanced welfare states is well grounded in theoretical explanations about the determinants of social policy, the research on welfare transformation in new democracies is still in its initial phase. Recognizing the gap, Schmidt (2004) has made an effort to develop hypotheses in order to elucidate the evolution of social policy in young democracies, drawing from the knowledge already at hand, based on the advanced democracies’ experience. In his view ‘democratic constitutions and in particular the age of democracy are important determinants of social policy’, and their effects are also then ‘detectable, when the impact of other determining factors are systematically taken into account’ (Schmidt 2004: 44, 54 [my translation]). The importance that new democracies attribute to the welfare state will depend on the overall effect of the factors which influence social policy-making. Thus, for instance, a socialist legacy, a favourable constellation of actors and a higher level of economic development guarantee stronger1 social policy in new democracies (Schmidt 2004: 56). A democratic constitution, he argues, is conditio sine qua non, in order for these factors to work.

Many of the countries of the post-communist world operate as ‘defective democracies’ (Merkel et al. 2003), since they manage to cover up authoritarian practices under the facade of formally democratic institutions. Democratic regimes place a higher value on social policies, measured by the level of their

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social spending (Schmidt 2004), but also case studies on social policy-making, in particular in post-communist countries, confirm that democratic consolidation has had a positive impact on welfare outcomes. A study by Cook (2007) comparing three diverse post-communist cases – Poland, Russia and Kazakhstan – has found that ‘democratic politics has mattered for welfare’ and ‘where representative institutions have been weak or absent in the post-communist context, reformers may be much freer to retrench, liberalize, and abandon the state’s welfare role’ (Cook 2007: 44). In so doing, Cook does not only refer to representative institutions within democratically constituted systems, but also to democratic mechanisms within a regime that allow interest coalitions to form, articulate and influence welfare.

The cases presented here feed well into this ‘democratization’ argument. Notwithstanding a common welfare state structure, albeit at different levels of development, during the transition the Yugoslav successor states manifested diverse trajectories. Their evidence shows how defects in democracy have worked against the welfare state. While democracies have the necessary mechanisms built in which facilitate participation to influence welfare outcome, defective democracies thwart the ability of popular demands to find a way into concrete policies.

This article outlines some key features of the economic, political and welfare state change in Croatia, Serbia and Macedonia following the dissolution of Yugoslavia, also taking note of the inherited structures. It then discusses the explanatory potential of some of the most influential factors linked to the presented framework and ends with some critical reflections.

Two Decades of Transition – Economic, Political and Welfare State Change

Economic indicators

The situation in Yugoslavia during the 1980s was not encouraging. The gloomy picture consisted of a stagnating economy, rising unemployment, sky-rocketing inflation and ever-increasing regional disparities. The gross domestic product (GDP) growth rate decreased from 6 per cent at the beginning of the 1980s to almost zero in 1989, the unemployment rate reached around 15 per cent despite job protection policy, inflation rose to 120 per cent in 1989 and real wages decreased (SZS 1990). The development gap between federal units was worsening: the GDP per capita of Croatia in the 1980s was twice the GDP per capita of Macedonia, with Serbia in between.

After Yugoslavia’s break-up the situation continued to worsen. As a result of the wars, the nineties were particularly detrimental for the region’s economies. By 1993 the GDP levels of Serbia and Croatia had dropped to 40 and 60 per cent of their 1989 GDP levels respectively (EBRD 2010). Albeit not directly involved in the conflicts, the Macedonian economy was severely affected by the UN sanctions imposed against the Federal Republic of Yugoslavia, the trade embargo from Greece and the Kosovo crisis. Furthermore, the 2001 conflict played out internally between Macedonian authorities and ethnic Albanian rebels additionally aggravated the country’s economic recovery.
Croatia surpassed its 1989 GDP level only in 2006, Macedonia in 2008, while Serbia still has not done so (EBRD 2010).

The collapse of the socially owned industrial facilities, which employed the largest number of people, contributed to massive lay-offs. Employment in the new millennium did not compensate for this loss, as economic recovery in the form of growth was not necessarily related to job creation. Sluggish economic recovery and high unemployment rates were associated with a decline of living standards and expansion of poverty. Social inequalities during the transition deepened, although even the previously egalitarian society privileged some of its members, such as the communist party elites. The losers of the transition were clearly the people who had lost their jobs during the economic restructuring and who were pushed into precarious and vulnerable types of employment or have become in need of welfare. The wars additionally exacerbated these developments by creating various new vulnerable categories, such as refugees and displaced persons as well as ‘new’ minorities caused by the secession. Even in Croatia, which has manifested comparatively better social indicators than Serbia and Macedonia, there is a widespread perception that inequalities are high, to a great extent as a result of the strong conviction that the privatization process was corrupt (Ofak et al. 2006: 16).

The selected socio-economic indicators in table 1 show the conditions reached in the three countries after two decades of transition. The year 2009

Table 1

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<th>Selected socio-economic indicators, 2009</th>
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<tr>
<td>GBP per capita in US dollars(^a)</td>
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<td>Labour participation rate (% of total</td>
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<td>population ages 15+)(^b)</td>
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<td>Unemployment rate (% of total labour force)(^b)</td>
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Sources: \(^a\) = EBRD 2010; \(^b\) = World Bank 2012; \(^c\) = Croatian Bureau of Statistics 2012, SIPRU, RSO 2010, RMSSO 2012; \(^d\) = Stambolieva and Dehnert 2011, figure for Croatia is from 2008; \(^e\) = HDR 2012.

Notes: Labour participation and unemployment rates are given according to the Labour Force Survey.

The national poverty rates in Croatia and Serbia reflect the share of persons with an income below 60% of the national median income. In Macedonia, the poverty rate shows the share of persons whose expenditures are below the level of 70% of the median equivalent expenditure.

The Human Development Index (HDI) measures the average achievements in a country on three basic dimensions of human development: health, education and income. The HDI in Croatia and Serbia were above the average of 0.734 for countries with a high level of human development, whereas the HDI in Macedonia was below this average and above the average of 0.618 for countries with a medium level of human development.

Croatia surpassed its 1989 GDP level only in 2006, Macedonia in 2008, while Serbia still has not done so (EBRD 2010).

The selected socio-economic indicators in table 1 show the conditions reached in the three countries after two decades of transition. The year 2009
is taken as a reference year, since in the aftermath of the global economic crisis indicators somewhat worsened.

**Political indicators**

The Yugoslav economic crisis of the 1980s was closely interwoven with a political one. The failing economy was related to the failing Yugoslav self-management concept, and thus the overcoming of the economic crisis required a new way of thinking, which was incompatible with the political monopoly of the Communist Party (Mencinger 1989). The constitutional reforms of 1971 and 1974 dispersed political power from the central to the republican level; however, these reforms were only half-hearted, as they did not replace the regime, but merely strengthened national elites. Instead of looking for exit solutions from the crisis, competition among the national political elites sharpened and eventually culminated in Yugoslavia’s violent break-up.

Nationalistic mobilization was the outcome of the national elites’ response to the ethnic and social tensions of the eighties, which was eventually used to push people into war. The wars and the economic sanctions laid the ground for dubious businesses and manipulations of the privatization process. Certain structures could use their close ties to the ruling political elites to reap profits from illegal trade and/or criminal privatization at the expense of the weakening of state institutions and impoverishment of the majority of the population (Hajdinjak 2002; Bartlett 2008; Džihić and Segert 2011). The clientelistic relations which underpinned the countries’ political economies of the nineties continued to mark their transition even after the wars had ended (cf. Džihić et al. 2012).

The new governments after 2000 in Croatia committed to democratic transformation through European integration. The country has not, however, been completely freed from the ‘ghosts of the past’. In 2010, Ivo Sanader, who was Croatia’s Prime Minister between 2003 and 2009, was arrested on corruption and war profiteering charges. The Sanader case was often associated with Croatia’s eagerness to demonstrate that it deals with corruption as part of the EU conditionality (BBC 2011; Mayr 2011). Croatia finished EU accession negotiations in 2011 and in 2013 is expected to become the 28th member state.

Despite the democratic shift in 2000, members of the former elite in Serbia could forge new political alliances by changing tactics, and thus keep the state captive to their interests (Ehrke 2010). In 2003, Serbia’s Prime Minister Djindjić fell victim to the effort to combat the criminal remnants of the past regime. His assassination was a serious blow to Serbia’s democratization. The question regarding the status of Kosovo continued to divide the political elites and posed an additional stumbling block to the country’s democratic development. In 2012, Serbia gained EU candidate status upon delivery of the last war crime suspects to The Hague and a series of concessions on Kosovo.

In Macedonia a condition of ‘full state capture (…) with administrative coercion’ (ICG 2002: 7) was created throughout the nineties, despite formal
democratic changes of elites in power. Subsequent democratic progress was ‘rewarded’ by granting the country EU candidate status in 2005; however, Greek opposition to Macedonia’s EU membership slowed down this EU-induced positive trend. A decade after the inter-ethnic conflict, Macedonia faced a ‘national renaissance’ (ICG 2011: i). Divisive nationalist rhetoric and actions were used to divert attention from the impasse on EU accession and to keep state institutions and other parts of society under the control of the ruling elite.

Welfare state indicators

The former Yugoslavia had developed a rather generous welfare system based on the principles of solidarity and equality. It was constructed as a mixed system, comprising social insurance and social protection. The social insurance system encompassed several branches, such as pension and disability insurance, health insurance, social insurance in case of temporary unemployment, and others. In a narrower sense, the core of the social protection system was targeted towards the most vulnerable, whereas in a wider sense beneficiaries could be all workers, their families and whole communities, who could benefit from various services provided mainly by the companies and local municipalities. The structure of the system was practically uniform and it was mainly the quality of services and access to rights that differed in the different republics and autonomous provinces (Stambolieva 2011). Below, I briefly outline the changes to the main branches of the welfare system following the break-up of Yugoslavia.

Given the mounting number of unemployed during the nineties, the unemployment insurance system came under pressure. In Croatia and Macedonia, the number of unemployment benefit recipients by 1997 rose to more than 50,000 (HZZ 2012; Vaknin 2001). In Croatia, former workers were joined by the Croatian defenders (ex-combatants), but also after 2000 the trend of rising unemployment beneficiaries was not stopped – a result of labour market dynamics, tightened eligibility criteria for early retirement, loosened conditions for access to unemployment benefit, as well as continued privileged treatment of war veterans and their families (cf. Puljiz et al. 2008). In Macedonia, the reverse process occurred, related to the fact that most of the company restructuring was completed in the 1990s (Donevska et al. 2007: 71), but also the tightening of eligibility criteria. In Serbia during the 1990s lay-offs were prohibited, but due to a halt in economic activity many workers were sent on ‘forced vacation’ (Uvalic 2010: 68). After the regime change the number of unemployment benefit recipients grew to 90,995 by 2003 (Vuković and Perišić 2011b: 241). Some have argued that the number of benefit recipients was not higher because of the presumed decision of the unemployed not to claim this benefit, but rather to opt for other, more favourable, social programmes which were in place (Begović and Mijatović 2005: 317). After 2003, the number of beneficiaries decreased in absolute terms and as a share in the total number of unemployed, as a result of stricter regulations. A significant share of refugees and internally displaced persons from Kosovo,
who were granted material compensation rights in 2003, has remained stable (NSZ 2011).

Another strategy in the face of the dire situation of the unemployed was the expansion of early retirement and easy access to disability pensions. During the first years of the transition the number of pension beneficiaries grew rapidly. Subsequent eligibility restrictions introduced through parametric reforms mainly affected disability pension beneficiaries, whose numbers started dropping in all three countries. Old-age pension beneficiaries continued to expand, albeit not with the same intensity, as a result of demographic ageing. This continued to exert fiscal pressure on the public pension insurance funds, which, due to ever-increasing deficits, became permanently reliant on budget transfers. Therefore, the Croatian and Macedonian governments decided to take the policy advice coming from the World Bank, suggesting partial privatization of their pension systems. Despite the adoption of the multi-pillar scheme, the Croatian pension system has been characterized by numerous exceptions. Concessions are made to certain privileged categories, such as war veterans and others, and they comprise around 15 per cent of the total number of beneficiaries (HZMO 2012). Additionally, on several occasions interventions to the system have been made with the effect of expanding pension benefits. Serbia, which belatedly started its transition, opted out of the World Bank model. It first chose to pay off the ‘large debt’ (Begović and Mijatović 2005: 338) towards pensioners accumulated in the decade before and then through parametric reforms focused on fiscal stabilization of the system. This, however, occurred at the expense of pension benefit levels.

The healthcare systems of the three successor states continued to provide universal coverage and access within an insurance-based model. In time, various reforms were initiated, mainly with World Bank support, in the direction of rationalizing expenditure, through privatisation of provisions and alteration of the model of financing. However, reform patterns have been more variable (Deacon et al. 2007) and clear-cut effects are difficult to make out. It can be observed that public expenditure on healthcare has been shrinking (WHO 2012; World Bank 2012). According to this data, the share of private sources, in the form of out-of-pocket payments, has been relatively high in Macedonia and Serbia at between 36 and 38 per cent. In Serbia, this share has been created within an upward trend during the second transitional decade, while in Macedonia the share has been constantly high, with some small reductions in recent years. Macedonia has been reducing its overall spending on healthcare (both public and private), which in 2009 reached 6.8 per cent of its GDP. Serbia on the other hand retained higher levels of spending: 9.9 per cent in that same reference year. Croatia’s overall spending level in 2009 was 7.8 per cent of GDP. Private spending has been sustained at low levels, with around 15 per cent share in total spending. Moreover, it has introduced private insurance to cover part of these costs.

Most of the social protection services (subsidies for food, transport, housing and utilities) were eliminated during the transition as they were considered market distorting (Orenstein 2008: 84). In a situation of widespread poverty, there was a shift away from the concept of universal inclusion and towards
targeted social protection for the neediest categories. The change was most prominent in Macedonia, where the social safety net had, over time, eroded to such an extent that it could barely symbolically reach even the most destitute. The combination of low coverage and low benefit levels in Serbia did not have an impact on poverty reduction (SIPRU, RSO 2010) and even the effect on alleviating the dire living conditions of their recipients is highly questionable (Vuković and Perišić 2011b: 246). Indicators in Croatia have been comparatively better. The state’s response to the humanitarian crisis of the 1990s focused on dealing with the consequences of war (Puljiz et al. 2008; Stubbs and Zrinščak 2009: 131). The social policies after 2000 started showing some effects on poverty alleviation. Social transfers have been found to reduce poverty up to 10 per cent, or more than 20 per cent when pensions are taken into consideration (Croatian Bureau of Statistics 2012).

Explaining Change – The Democratization Link

The level of democracy has been positively correlated with the welfare system, usually measured through the level of social spending (Schmidt 2004; Orenstein 2008). Determining the exact level of social spending in Croatia, Serbia and Macedonia throughout the years is problematic due to a general lack of data, a lack of comparative data or even contradictory data provided by different sources (cf. Stambolieva and Dehnert 2011; ILO 2005). During the last decade social spending was reduced, but Croatia remained the highest spender, followed by Serbia and then Macedonia. In particular, this becomes evident when spending in different welfare sectors is compared. The data provided in table 1 illustrates that the countries fall short of EU standards. Comparatively, in 2009 the EU27 was spending 29.5 per cent on average (Eurostat 2012).

According to the Bertelsmann Transformation Index, Croatia and Serbia have been labelled as consolidating democracies (Bertelsmann Stiftung 2012), and Macedonia as a defective democracy, whereas the Nations in Transit 2012 report has classified all three states as semi-consolidated democracies (Freedom House 2012). In this respect, the rankings do not tell the whole story and have limited usefulness in explaining the differences in welfare regime change (retrenchment and structural change) between the states. I therefore proceed with closer inspection of other determining factors in the democratization process which have worked in favour or against welfare outcomes, and end by summarizing the arguments in the country cases.

Factors influencing welfare outcomes

The socialist legacy is generally positively associated with the strength of the welfare state (Schmidt 2004) due to the strong institutional framework already in place. However, the socialist legacy may also prove to be adverse, as it may inhibit civic activity in spite of newly acquired freedoms. According to Ost and Crowley (2001), the communist legacies best explain labour weakness in post-communist societies where trade unions were hardly advocates of workers’ interests. In the past, the boundary between management and labour had
been vague, hence the incomparability of the role of unions in communism with that of unions in corporatist capitalist systems. The transition heightened the tendency to depart from the communist past. The abandoning of class identity aggravated the process of identification and representation of class interests, as well as creating space for the emergence of a new type of identities. Thus, divisions along ethnic and national lines, albeit not directly connected to economic hardship, successfully channeled the general frustrations. The national political elites seized the opportunity to thus keep the populations busy while they pursued their own agendas. Welfare policies were also strategically used to divert people’s attention from socio-economic issues and prevent an organized display of popular dissatisfaction. The extensive use of early and disability retirement, granting wide access to unemployment benefits and other measures, helped lower the mobilization capacity of former workers (Vanhuysse 2006).

The wars on the former Yugoslav territory presented favourable conditions for the channelling of class anger into divisions along ethnic and national lines. Despite the relative autonomy of the workers within the Yugoslav self-management system, workers had not been able to organize themselves after the collapse of communism. A notable exception is the Slovenian case, where the social partners participated in all major decisions on an equal footing with the government and negotiated a gradualist transformation model with strong welfare policies. The question is what accounts for this notable divergence given the common Yugoslav legacy? One could argue that there was an absence of war in Slovenia, whereas Croatia, Serbia and Macedonia were seriously affected. Another plausible argument, which also helps explain the first one, is the self-management model itself, which had allowed for a high degree of decentralization and facilitated the development of autonomous communist practices in the different parts of former Yugoslavia. According to Stanojević (2003), it was not the weakness of labour, but the choices made by the national communist elites which contributed to the diverging paths. For instance, he shows that in the second half of the 1980s the whole of Yugoslavia was faced with a powerful wave of strikes, which was the workers’ reaction to the socio-economic grievances of that period; however, the answers of the republican elites to the workers’ strike movement qualitatively differed (Stanojević 2003: 292, 298). In Slovenia, democratic forces prevailed, whereas in Serbia the rise of the nationalists fuelled resentments on a national, ethnic and religious basis, thus also contributing to the nationalists’ rise to power in Croatia.

The wars which followed in the 1990s created favourable conditions for the pursuit of authoritarian behaviour. On the one hand, they provided legitimacy for the ruling elites to make decisions without wider consultation and, on the other hand, allowed them to deploy measures which would additionally prevent the demonstration of popular discontent. In Croatia, the government introduced an anti-inflationary stabilization programme in 1993 with the support of the International Monetary Fund (IMF) and started the economic restructuring process. Despite some immediate positive effects, economic development was slow, to a great extent owing to the HDZ-biased privatization (Franičević and Kraft 1997). While the ruling elite was stripping off state
assets, social spending remained high for the purpose of financing early retirement of laid-off workers, pension benefits and disability payments for war veterans and war victims, and support for refugees and displaced persons (Franicˇevic´ and Kraft 1997: 682). In Serbia, the war-related expansionary policies, as well as the policy of maintaining social peace through guaranteeing employment security despite huge company losses, led the country into hyper-inflation. A 1994 stabilization programme was short-lived and – coupled with the Kosovo events, growing external pressures and further exacerbated by elite capture of state resources – contributed to massive pauperization of the population (Uvalic 2010), which could no longer be alleviated by social interventionism. Macedonia was also severely hit by the sanctions imposed on the Federal Republic of Yugoslavia, the trade embargo from Greece, the Kosovo war and the related refugee crisis which brought 355,000 refugees (UNHCR 2002) to a country of two million people. Despite worsening economic indicators, rising social problems prompted an increase in social welfare expenditure, in particular in the field of pensions, unemployment benefits and social assistance (Gerovska-Mitev 2007: 131).

With the removal of the direct threat of war and the related state of uncertainty, people demanded change, which led to political shifts upon elections in all three states. During the second decade of the transition, socio-economic issues gained in salience, but paradoxically it was exactly then that the biggest welfare regime changes, in terms of cuts and restructuring, occurred. The reasons for this lie in the fact that some reform processes were initiated in the previous decade and started showing effects only later. The slow and defective consolidation of democracy and the concurrent unfavourable international trends additionally worked against the welfare state.

The timing of the turn of events in the former communist world was ‘unlucky’ (Bryant and Mokrzycki 1994: 6), as it seemed to give additional momentum to the ‘neo-liberal’ trend started in the 1980s. The international financial institutions, mainly the IMF and the World Bank, to which the troubled post-communist countries turned, pursued a free market policy agenda, which also was reflected in the restructuring of social policies. By ‘relying on “hard conditionalities” reinforced by structural loans’ (Deacon et al. 2007: 229), the World Bank, often backed by the IMF, could levy its agenda on the region. Effects were most prominent in the pension systems, but also in other key areas, such as healthcare, welfare cash-transfers and labour markets, which were affected by the liberalization, retrenchment and privatization policies. Many of the reforms in Croatia and Macedonia were already initiated during the 1990s (Serbia was internationally isolated then), and were negotiated between the international actors and the governing elites far away from public scrutiny. Their effects on the institutional framework became more visible in the subsequent decade, and new incumbents did not reverse this process. The EU, to which the countries of the region aspired, did little to counter the World Bank although it had a qualitatively different attitude towards social affairs (cf. Deacon and Stubbs 2007). EU influence in Croatia, which now awaits accession, although belated, added improved quality to the debate on social inclusion (Stubbs and Zrinščak 2009: 129).
An important reason for the success of ‘neo-liberal’ policies was the fact that the public voice had largely been silenced during the transition. As I argued above, the abandonment of class-based ideologies, the imposition of ethnic- and national-based divisions, and the extensive use of emergency welfare measures contributed to quiescing people and diluting their mobilization capacity. Once this was achieved, it became easier for governments to take decisions in spite of ‘public dissatisfaction’. Undertaken welfare policy reform did not, however, reflect the development of a liberal welfare culture in the sense of advanced liberal democracies. In the process of democratization, the welfare state has been withdrawing before liberal political institutions could consolidate to provide space for alternative-based decision-making. The elite captured economic and political structures left little space for citizens to articulate their concerns. Moreover, tactical use of welfare policies targeting certain social groups (mainly pensioners and war veterans) that have been most vocal or were considered politically important reinforced clientelistic relations. On the one hand, these phenomena have hindered states’ ability to fairly redistribute wealth and contributed to a rising gap between macro-economic performance and the socio-economic reality of the majority; on the other hand, the lack of efficient social policies has put the consolidation of democracy at risk and thus further thwarted the possibility of citizens to influence welfare outcomes through political participation (Džihic´ and Segert 2011; Džihic´ et al. 2012). Elections have been a formal instrument in the hands of the majority to punish incumbents for pursuing policies unresponsive to popular needs; however, the frequent mismatch between the electoral promises of political parties and actual policy-making has translated into general electoral fatigue, low voter turn-out (Nordsieck 2012) and increased success of populist parties (cf. Vanhuysse 2009). This was the case in Macedonia and Serbia, where democratic consolidation has been slowest, partly aided by unfavourable external conditions, such as the dispute over Macedonia’s name and Kosovo’s unresolved status.

Macedonia

Macedonia has displayed consistently poor macro-economic indicators (see table 1). Even modest economic growth has been particularly unequal and social transfers have failed to yield redistributive effects. After 2001, there was some short-lived increase in spending, related to the internal conflict. Subsequently, better inclusion of ethnic communities, in particular the Albanian community, was to be achieved through their employment in the public administration sector (Gerovska-Mitev 2007: 135). The only social sector where the same level of social spending has been retained throughout both decades (around 10 per cent), and thus with the improved economic situation, even increased in real terms, was the pension system (ПИОМ 2011). The new multi-pillar model has been delayed as payment of pension benefits under the reformed system has not commenced, and has therefore not raised much public debate. In 2008, the Macedonian government initiated reform of the mandatory fully funded pillar by reducing the fees that private pension funds can charge, which provoked strong reactions on their side (Apostolska and
Tozija 2010: 9). The changes in 2011 of withholding assets of the Agency for Supervision of Fully-funded Pension Insurance in the central budget were heavily criticized by the opposition (Apostolska et al. 2011: 10). The unilateral government intervention was a populist attempt to sustain a stable level of pension expenditure given the large public pension fund deficit. In all other areas a politics of retrenchment was being implemented, which was particularly adverse towards the most vulnerable categories. The 2011 decision to exclude the unemployed from universal health insurance covered by the state and the 2012 decision to reduce the number of social assistance recipients to only 37,321 compared to 46,000 the year before (Димитриевска 2012) are the clearest examples. The last few years particularly saw cuts in welfare beneficiaries, although poverty indicators remained constant. While these cuts were justified because of so-called ‘abuses’ by welfare recipients, whose social assistance was no more than €85 for a family of five, paradoxically, the government spent billions in the controversial ‘Skopje 2014’ project which involved construction of neo-classical buildings and sculptures in the name of the ‘national spirit’ (ICG 2011: 2). The government, in particular the ruling VMRO-DPMNE, scored political points on the blocked Euro-Atlantic integration and, using divisive nationalist rhetoric, managed to erode parliamentary, judicial and media independence, and buttress authoritarian forms of decision-making.

Serbia

Democratic transition in Serbia started after the regime change in 2000. During the first years of the new millennium a great deal of international aid was used to repair the damaged social infrastructure and repay the pension and welfare arrears: 7.72 per cent of all aid money was allocated to the social sector and 4.54 per cent to healthcare (Bajec et al. 2008: 71), which was much more than most other sectors. At the same time, the Djindjić government had initiated a liberal economic restructuring programme with a strong social dimension. The labour market was liberalized, but also a Social Programme was launched, establishing a Transitional Fund, which provided mainly severance payment and other benefits for workers who had lost their jobs in the privatization and restructuring process since 2001 (Mijatović 2008: 77). In the pension system, under the strong influence of the then Minister for Social Affairs, Gordana Matković, Serbia opted for parametric reforms and declined the World Bank proposal of partial privatization. However, pension indexation has been subject to frequent changes over the years and has become a controversial issue in negotiations between the government and the IMF, which demanded more fiscal discipline (Vuković and Perišić 2011a). Also, since 2002 various reform projects were initiated for the reorganization of the welfare sector. Two Funds were established in order to support welfare provision at the local level. However, while the success of the implemented projects was undisputed, the risk of ‘over-projectisation of the reform’ (SIF 2006: 26) was hampering the projects’ transformation into a sustainable system. Following the assassination of progressive Prime Minister Djindjić in 2003, the minority Koštunica government slowed down the overall process of

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reform, partly as a result of the more ‘conservative’ approach of Koštunica and partly because the government was often blocked by the many coalition partners, which treated the respective ministries as political spoils. Serbia has not been able to overcome the inherited problems and remained captured by non-transparent political and oligarchic economic structures (Džihić et al. 2012: 102). Discrepancies between economic, political and social policies watered down the effects of the initial social policy reforms. In particular, the global economic crisis of recent years and the worsening socio-economic indicators brought some of these inherent problems to light. Increasing unemployment and poverty rates, along with the corruptive exploitation of public resources resulted in decreased support for the ruling Democratic Party (DP) (2008–2012). In 2011, there were several corruption scandals, one of which involved the Public Health Insurance Fund (HIF), which led to the imprisonment of the HIF’s former director Vukajlović who had allegedly damaged the state budget by €1.25 million in 2009 (B92 2011). As Arandarenko and Golicin put it: ‘The HIF was always politically extremely important due to its high budget’ (Arandarenko and Golicin 2007: 181) and ten out of 12 HIF directors had been imprisoned in the 1990s. The Kosovo issue has also continuously burdened democratic processes. Increased tensions in Northern Kosovo in 2011 additionally polarized the Serbian political scene which reinforced by the DP-led government’s unsatisfactory performance in other areas, helped bring the former nationalists, now reformed populists, to power in the 2012 elections.

Croatia

Croatia has had comparatively good indicators over the period (see table 1). President Tudjman’s death marked the end of the authoritarian rule of the nineties (1990–99) and a political shift followed the 2000 parliamentary elections. However, even the return of the HDZ to power (2003–11) did not seem to lead the country astray from its pro-European course. In fact, Vidović and Pauković have found that programmatic difference between parties concerning their socio-economic policies has lessened (Vidović and Pauković 2011: 104). The parties have been influenced by the dominant globalization processes, but at the same time in practice balanced out the needs of different social groups. In particular, war veterans and pensioners have profited from the political attention and have made the Croatian social policy captive to their privileged position (Stubbs and Zrinščak 2009: 132). But, if the satisfying of the needs of the war veterans and war victims was a ‘moral obligation’ (Stubbs and Zrinščak 2009: 128), the pensioners had to fight to improve their position. Their first victory related to receiving compensation for the reduced levels of benefits during the nineties was won with the help of the Constitutional Court, which ‘in a sign of growing independence and separation of the judiciary from the state, labelled the government decision unconstitutional’ (Stubbs and Zrinščak 2007: 92). Thus, despite the fact that reforms were most pervasive in the pension system, the pensioners had become an important group which could not be politically ignored. In healthcare, despite privatization of primary healthcare, it remained tied to the public system by means
of financing. Alongside mandatory health insurance, voluntary supplementary insurance was introduced for covering costs not covered by the public fund. A government initiative to introduce mandatory supplementary insurance was opposed by the opposition, trade unions, the medical association, even one coalition member in the government (from the Croatian Pensioners Party), backed by the public, which forced the government to back down (Vidović and Pauković 2011: 105). Nevertheless, despite wide coverage of health insurance, healthcare has not been equally available to all, leaving vulnerable categories particularly negatively affected (MZSS 2011). The labour market was liberalized without a consensus with the trade unions (Račić et al. 2005), while passive and active labour market policies, although more generous than in the other two states, were used restrictively. Nevertheless, this did not seem to initiate too much debate, possibly because of the improved labour market dynamics. The situation changed after the global economic crisis hit the Croatian economy and produced rapidly deteriorating social indicators. A new 2011 law on social care also tended to apply stricter treatment to welfare. The worsening living conditions, along with the general frustration mounting over surface corruption affairs, highlighted by the case of former Prime Minister Sanader, facilitated political change at the 2011 elections. One of the first decisions of the new government was to cut some privileged pension benefits, which have been both a burden to public finances, but also a source of public criticism due to their inequity (Večernji List 2012). All things considered, although in the 2000s Croatia was not freed from elite capture, its governments chose to accommodate various social needs and kept public spending, including social spending, high at the expense of increasing indebtedness. In 2010, Croatia’s gross foreign debt was nearly 100 per cent of its GDP, and the public debt about one-third of the GDP (European Economy News 2010).

Conclusion

When communism started failing, the now former communist states developed diverse strategies to address the new political, economic and social challenges. In the former Yugoslavia the growing socio-economic pressures of the eighties ended with rising nationalistic tensions and a violent secession. The socio-economic collapse caused by the wars and their related consequences during the nineties raised the pressure on the new welfare states to unprecedented levels. Initially, the elected political elites overstretched welfare provisions and thus contributed to social groups’ dispersion. Simultaneously, public resources were being dismantled and deals with the international financial institutions made, away from public scrutiny. By the use of loans, the international financial institutions imposed their agenda mainly consisting of public spending cuts and restructuring of the welfare state, and in the absence of their own ideas or interests as to how the states’ welfare systems should look like, the political elites tended to embrace this agenda. What the analyzed country cases have suggested is that where democratic processes and institutions have been stronger, reforms have been more responsive to public concerns. Nevertheless, the countries’ democratization has remained ‘defective’
to a greater or lesser degree, which has impeded economic development and compromised the welfare state’s redistributive role. In particular, the global economic crisis has brought these inherent shortcomings to the surface. The EU has so far proven incapable of enforcing a stronger social agenda. Its overall agenda in Macedonia and Serbia has been confusing, whereas in Croatia it has produced positive effects. The high level of Croatia’s indebtedness will have an impact on the country’s welfare structures. Assuming that Croatia stays on the democratization path, citizens will most likely be considered in the decision-making on welfare policies. In Macedonia and Serbia, populist policies and state capture may prove to be risky for the welfare structures and ultimately for the well-being of their citizens.

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Notes
1. Schmidt (2004) uses the level of social spending as an indicator of the ‘strength’ of the welfare state and the importance attributed to social policies in a given country.
2. According to Rüb, there are also ‘incomplete’ democracies which stay at the level of pure liberal democracies and lack the social preconditions that enable the members of the society to set the democratic minimum into motion. They are to be differentiated from ‘defective’ democracies (Rüb 2004: 18).
3. After the dissolution of SFR Yugoslavia, in 1992 Serbia together with Montenegro became part of the newly constituted Federal Republic of Yugoslavia. The union existed until Montenegro’s exit in 2006. Kosovo, which was one of the two autonomous provinces within Serbia, became a UN administered territory in 1999 following the conflict between Yugoslav forces and ethnic Albanians. It declared independence from Serbia in 2008.
4. HDZ stands for Hrvatska Demokratska Zajednica (Croatian Democratic Union) which was the ruling party then.

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