

**Welfare State Transformation in the Context of
Socio-economic and Political Changes**

A Comparative Analysis of the post-Yugoslav States: Slovenia,
Croatia, Serbia and Macedonia

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It is a return to the first gilded age not only because we are living through an economic revolution, but also because the rules of the game again favor those who are winning it. (...)

Wall Street is the mother church of capitalism. But its flagship firms are run like Yugoslav workers collectives.

Chrystia Freeland

(Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else)

1 Introduction

With the lifting of the Iron Curtain two decades ago, the global division in blocs officially came to an end. The citizens of the former communist countries chose to have a say in the matters of their future and expected to get no less than their western counterparts. In reality, joining the affluent and democratic club of states proved to be a more complex endeavor than a simple amalgamation. On the other hand, perhaps expectations were set too high, own capacities overestimated and western archetypes overidealized.

The tectonic change in the communist world coincided with important political shifts in western countries that encouraged removal of national barriers to greater global, and above all, market connectivity. “The collapse of communism in 1989 was a geopolitical event that seemed to confirm the neoliberal view that public intrusion in economic affairs leads to inefficiencies” (Castles et al. 2010: 11). It gave additional reasoning to a new policy orthodoxy promoting reduction of government spending, price stabilization, liberalization and deregulation of markets. Increasing market openness facilitated capital mobility and pressured national government policies. In light of these new developments, affluent countries progressively started to reexamine the role of their welfare states and to initiate social policy reform. Conversely, authors who studied the transformations of the former communist states tended to agree that a condition of full employment would no longer be possible nor would the states be able to fully provide income security for the unemployed, or finance old-age protection, high-quality universal healthcare, free education and other public goods. The period of so-called transition thus incorporated the need for adjustment to the new conditions whereby diverse welfare outcomes were generated in different states.

After twenty years, a new global crisis revealed the deficiencies of the neoliberal policy orthodoxy and spurred a new debate about the position and objectives of public policies. Although a clear-cut tendency has not yet crystallized, recent events of global scale have motivated increased international exchanges that could affect the course of national welfare policies in a context of changing economic circumstances and contending political responses. By offering a comprehensive insight into the welfare policies of selected countries, as determined by the given economic possibilities and the political milieu in a certain period of time, this book intends to present a modest contribution to the debate interested in forging “a new social contract for the twenty first century” (Castles et al. 2010: 15).

1.1 Research Goals and Questions

The study compares the developments of the welfare systems of Slovenia, Croatia, Serbia and Macedonia, in particular their pension systems, health-care systems, labor market and social protection policies, following the disintegration of the Socialist Federal Republic of Yugoslavia (SFRY) up to the present date. The thesis aims to:

- Identify the main elements and characteristics of the welfare systems.
- Identify the main factors (variables) that have influenced the directions of welfare state development.
- Compare the differences and similarities among the different welfare states and explore the reasons therefor.
- Improve the knowledge about the region and serve as a reference for future actions and research.

The collapse of the Eastern Bloc contributed to spurring research debates on the profound transformations happening in the former communist states. The accent of the literature has been on political and economic transformations, to a lesser degree considering social and social policy aspects. This is understandable given that the demise of communism implied abandonment of the old social contract that legitimized the given political order in exchange for basic economic standard and social benefits. Although the main force driving the change was the aspiration

towards joining the club of western democracies, the expectations were not merely political. Democracy was expected to not only enable political participation or vote out incompetent governments, but also accelerate economic development for improving 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 benefits, welfare facilities and full employment were highly valued (Lewis 2010: 322). However, in terms of welfare outcomes, what they eventually got was pretty diverse. Therefore, we are interested in what happened to the strong social states, which within the protected economies guaranteed basic standards of income, healthcare, social protection etc. to the population, and which under the new conditions of opening the economy to the market principles were bound to undergo changes. This research takes interest in the post-Yugoslav region and tries to fill the gap in post-communist social policy research.

The states of SFR Yugoslavia, which until 1991 belonged to a single federal structure and were therefore part of the same welfare regime, have gone their separate ways. Yugoslavia's disintegration encompassed more than a mere transformation from a federal entity into several unitary states - like in other former communist countries, it brought about considerable changes in a political and economic sense. Moreover, these systemic changes did not happen as a result of a peaceful evolution, but rather occurred in a setting of violence. The period of transition made way for the rise of various social problems, like unemployment, poverty and social inequality, prompting massive social policy adjustments. The seceding states faced the challenge of building up their own welfare system, within a context of political and socio-economic transformations. Related to this, some of the main questions that the thesis addresses are:

- What kind of welfare systems did these countries develop over the period of two decades (1991-2011)?
- How particular welfare outcomes came about?
- Why were certain reforms undertaken in some countries and not in others?
- Which elements (factors) and the combination thereof have been key to explaining the welfare states trajectories?

The interplay of socialist legacies, post-socialist specificities and shared global tendencies is at the center of analysis. By putting together the pieces of the puzzle, the thesis aims to not only portray welfare regimes in their present form, but also illuminate the complexities and interactions of economic and political processes in given time and space.

1.2 The Concept of Welfare State

What is a welfare state? Rarely has a term been as frequently used in the absence of a commonly accepted definition as the term ‘welfare state’ (cf. Esping-Andersen 1990; Kaufmann 2001; Kaufmann 2003; Veit-Wilson 2000; Wincott 2003). Definitions range from a narrower notion of the welfare state as “a range of state programs that provide for life contingency and redress market-produced inequalities” to wider considerations about the state’s responsibility “for the well-being of its citizens and the promotion of the ‘common good’” (Leibfried and Mau 2008: xv-xvi). Scholars complaining about the ambiguity of the welfare state notion contend that its conceptualization is a case of historical and contextual embedding.

The roots of the modern welfare state can be traced back to the 19th century and are usually associated with the introduction of the first social insurance schemes¹ by Chancellor *Bismarck* in Germany. Subsequently, many countries around the world started launching various social insurance schemes (for a list see Kuhnle and Sander 2010). These countries also have their own social policy legacies. However, the origins of a state’s “normative commitment to welfare” (Kaufmann 2012: 11) can be traced to continental European, in particular German etatist traditions. After the Second World War, state welfare policies experienced a renaissance, as the welfare state started registering unprecedented advancement. Similar to Bismarck’s importance for social policy development in the nineteenth century, a key figure in the post-war context has been the British economist *Beveridge*. His 1942 report is widely considered a landmark for the subsequent development of a universalist and comprehensive welfare state (cf. Kaufmann 2012; Pierson and Leimgruber 2010). Another key name in the post-war context has been that of yet another British economist, *John Maynard Keynes*, whose economic policies have already been built in the US American ‘New Deal’ – an economic program for exiting the Great Depression (of the 1930s) through public investment and social security programs. What eventually became known as the “Keynesian welfare national state” (Jessop 1999) has been the outcome of his

economic philosophy that triumphed in the capitalist and democratic part of the world, in particular between the immediate aftermath of the WWII and the 1970s. The welfare state thus exists where market economy and state guaranteed socio-economic rights meet and should therefore be differentiated from ‘liberal capitalism’ and ‘socialism’, which are either driven by unbounded markets or rely solely on state economic planning respectively (cf. Kaufmann 2003; Kaufmann 2012). Such understanding of the welfare state, evidently informed by the dominant post-war developments, may still be tricky, as it not only isolates the communist part of the world from the discussion, but also questions some of the capitalist democracies’ place in the state of welfare².

Evidently, the concept of the welfare state has been developed in the industrialized world. The English term ‘welfare state’ came into popular use also after the Second World War when it was coined to contrast the Nazi ‘warfare/power state’ (Veit-Wilson 2000; Pierson and Leimgruber 2010). Other languages use other domestic terms to denote the meaning ‘welfare state’. For instance, the dominant term in Germany is ‘Sozialstaat’³, which literally translates into ‘social state’. The United States, traditionally considered to hold a skeptical postulation towards the role of the state in matters of society and to attribute primarily a negative connotation to welfare (cf. Skocpol 1992), gave preference to the term ‘social security’ since the time of the ‘New Deal’ programs, which recognized risk as a social construct rather than individual fault, and thus legitimized state intervention (Kaufmann 2003: 98). This term was later globally popularized through The Universal Declaration of Human Rights⁴ and various subsequent international conventions. The post-war expansion of states’ welfare policies saw the development of new concepts which transcend social security. Worth mentioning in this context is the notion of ‘social inclusion’ which requires comprehensive engagement of the welfare state beyond mere diminution of material deprivation. Social inclusion especially gained ground in Europe - the European Union promoted it as a key instrument of its social policy agenda (cf. Council of the European Union 2000).

The debate on the welfare state has been biased towards liberal democratic regimes which operate under market conditions. Definitions revolve mainly around the concept that state welfare policies are there to reconcile prescribed rights with market forces (cf. Marshall 2008 [1949]). Such an approach excluded large clusters of countries from observation and critical

analysis as they did not fit the Western conceptualization. This changed somewhat in recent decades. The third wave of democratization⁵ brought about substantial changes across the world, starting from Southern Europe, Latin America and culminating with the fall of the Eastern Bloc. In Europe, the eastward enlargement of the European Union encapsulated a need to deepen the understanding of this region. Still, there are those who have questioned if the category of the ‘welfare state’ can reasonably be applied to these states and who complained that “because of the EU enlargement, the term welfare state has become increasingly vague” (Schubert et al. 2009: 11). While acknowledging the concern behind this reasoning, this book adopts a different approach. The alternative argumentation relies on several observations. First, scholars have already taken note of the vagueness of the ‘welfare state’ notion. The Western thought has not only *not* reached a consensus on the definition of the ‘welfare state’ but also lacks agreement on the role of the welfare state, its drivers, its core functions etc. Second, state conducted social policies in the Western world had their origins in the “context of authoritarian political structures” (Alber 1982: 149 [my translation]). The first social security schemes were created “top-down” (Ibid.), although subsequent democratization processes have certainly contributed to their further development. History has witnessed various “distinct welfare state routes”⁶ (Leibfried and Mau 2008: xv), within which the communist states even outperformed the social policies of the capitalist world (Schmidt 2005: 233). Third, the industrialized states also significantly differ from each other through both time and space regarding the level of the welfare state’s engagement and the type of schemes developed. Additionally, they do not represent static categories, but when confronted with new challenges, tend to change. Even though states have responded differently to economic pressures and neoliberal criticism, recent decades have profoundly shaken welfare state structures. The literature has observed a move from the post-war ‘Golden-Age’ into a ‘Silver-Age’ (cf. Esping Andersen 1996; Taylor-Gooby 2002) and “a tendential shift [...] from the Keynesian welfare state (wherever it was established) to the Schumpeterian workfare state” (Jessop 1993: 7). Another body of literature (cf. Palier 2010; Bonoli and Natali 2012; Busemeyer et al. 2013; Hemerijck 2013), that looks beyond “permanent austerity” (Pierson 2001), has nevertheless inspected welfare state reform in light of emerging challenges like intensified globalization, Europeanization, socio-demographic changes, emergence of new social risks etc. Finally, when the countries of Eastern Europe⁷ exited communism, they faced different entry conditions than the ones under which the welfare states

of the affluent democracies advanced. Some of the contemporary challenges affecting developed welfare states have been shared by the former communist states, which combined with their own specificities, influenced the welfare models that took shape during the last couple of decades.

1.3 Theoretical Framework

1.3.1 Current State of Research

1.3.1.1 Theories on Welfare State Development and Transformation

A plethora of ideas, approaches, theories have been devised seeking to provide better understanding of welfare state dynamics. Schools of thought which have traditionally proven most influential can generally be classified into four types: the *socio-economic school*, according to which it is primarily the level of economic development and demographic tendencies which determine the welfare state effort⁸; the *conflict (agency-centered) theories*, which highlight the role of interest groups, political parties, public opinion and ideology in steering welfare state efforts; *institutional theories*, which study the importance of existing structures and the path dependence of welfare state development; and eventually the *(international) diffusion and transfer* of ideas and policies that thus influence national welfare state politics. These theories have been developed for the purpose of explaining the origins and the evolution of the welfare states in the industrialized world, and have been critically reexamined within the literature on welfare state change.

One of the pioneering theoretical explanations was provided by the *socio-economic school*, which contrasts the needs of the population with the socio-economic resources of the state in order to explain the welfare state effort. According to this school, economic growth correlates with social and political modernization and the associated social differentiations, which pressure old structures and generate new activities for the state. The approach, also known as a *functionalist* version of the modernization (industrialization) thesis, basically sees the welfare state emerging as a function of the logic of industrialism and the socio-economic changes associated with it. Some further expanded the argument by suggesting that welfare states were created to safeguard capitalism, by keeping the working class under control and stimulating its purchasing power (cf. Müller and Neusüss 1971). An influential study of the functionalist school

is that of Wilensky. By comparing the level of social spending of sixty-four countries, expressed through percentage of GDP, he found that “social security growth begins as a natural accompaniment of economic growth and its demographic outcomes” (Wilensky 1975: 47), irrespective of the type of political system or ideology in place. His study confronted states holding different positions on the political and economic spectrums and concluded that the level of economic development is the most powerful predictor of welfare state effort. This view has been criticized for its inability to explain when socio-economic determinants materialized in practice, to which extent and in what forms of welfare programs (Schmidt et al. 2007), thus being unable to grasp the welfare diversity particularly among affluent countries. Wilensky’s concept of the welfare state is negligent of social and political factors, though he contends that expansion of social security is nevertheless “hastened by the interplay of political elite perceptions, mass pressures, and welfare bureaucracies” (Wilensky 1975: 47).

Conflict (agency-centered) theories view the welfare state as the outcome of social and political struggles. The introduction of the first welfare programs in authoritarian states (such as Bismarck’s Germany) was an elite project with the objective to legitimize the regime and ensure loyalty of the masses in a state- and nation-building context (cf. Alber 1982). Alber, nevertheless, noted that suffrage expansion, founding of workers’ (socialist) parties and their electoral success have been proportionately related to the extension of welfare programs across a number of European countries, aimed at pacifying workers by addressing some of their social concerns and neutralizing their political mobilization (Alber 1982: 150). Conversely, the states where state- and nation-building processes had been completed earlier and voting rights had been relatively prevalent (like Great Britain and the United States), lagged behind in the development of their welfare policies. Reflecting on Britain, T.H. Marshall observed that despite the “sense of community membership and common heritage, [it] did not have any material effect on class structure and social inequality for the simple and obvious reason that, even at the end of the nineteenth century, the mass of the working people did not wield effective political power” (Marshall 2008 [1949]: 111). According to his rights-based framework of tripartite citizenship, the expansion of the scope of democratic rights (from political, through civil to social rights) widened the ground for bottom-up pressures and thus helped turn modern states into welfare states. The intensification of trade union activities, political engagement of social groups, as well as political successes of the labor party challenged the established socio-economic order and

motivated intervention (cf. also Whiteside 2012). This interpretation is at the core of the *power resources approach*, which has focused on the impact of different class-related- and interest groups over the shaping of the welfare state, depending on their interests and effective power. According to the main proponents of this approach (cf. Korpi 1978, 1983; Stephens 1979; Esping-Andersen 1990), welfare state effort would primarily be the outcome of the distributive conflict among different types of actors that reflect the socio-economic cleavages in a society. In other words, strong labor organizing and participation of left-wing parties in government have contributed to welfare state maturation, albeit some⁹ have pointed out a leftist bias of the argument and a neglect of the role of other classes or agents. Similar to the power-resources approach, the *partisan theory* also prioritizes the importance of competing interests, with emphasis on the profile of political parties, their electoral base and their possibilities to create or modify policies through the participation in power. Partisan theory scholars argue that center-left governments tend to be pro-welfare and that party system dynamics and electoral cycles also matter (cf. Hibbs 1977; Tufte 1978; Castles 1982; Hicks and Swank 1992; Huber and Stephens 2001).

These interpretations of the agency-centered theories have come under criticism in recent decades for being unable to explain new realities. Intensified internationalization has boosted states' mutual interdependency, has reduced national actors' leeway and has contributed to the narrowing of ideological party differences (Schmidt 2005; Schmidt et al. 2007). Furthermore, relevance of class cleavages has been pushed to the back burner by cultural and other cleavages that have come to the fore (for discussion see Clark 2003). While this criticism indicates the altering effects of new forces at play, some traditional counter-arguments, in turn, point to the limiting elements of existing institutional structures. The first line of critique is addressed by the *international hypothesis*, whereas the second one by the *institutional school*, to both of which I turn next.

Institutional theories are built around the argument that institutions matter for welfare state outputs. Political actors are not isolated from an existing institutional framework, and their activity is constrained by the constitutional and other normative arrangements and is dependent on the organization of the decision-making process. According to this approach, the making of welfare policies should be put in a broader "structured-polity" (Skocpol 1992: 41) context that

helps explain the distinct types of welfare regimes. The configuration of ‘veto players’ (Tsebelis 2002) or ‘veto points’ (Immergut 1992), inherent to a country’s political system, represents an important institutional bottleneck which channels political decisions. To use Lijphart’s language, it is not without relevance whether one country has a majoritarian or consensual model of democracy¹⁰. However, evidence on the concrete social policy outcomes that given institutional frameworks produce has been “indeterminate” (Hicks and Swank 1992: 661) and therefore it would be hard to conclude which institutional arrangements¹¹ are conducive to welfare expansion or its contraction. Institutionalists generally agree that veto points facilitate policy stability and stand in the way of policy reform. This hypothesis feeds well into the historical aspect of the institutional argument. Not only are actions of political actors reliant on established polity structures, established policy structures themselves may have a “lock-in effect”¹² (Pierson 1992: 365) on future decisions. Originally developed in economics (cf. David 1985), the *path-dependency approach* has found application within political institutionalism (Collier and Collier 1991; Rose and Davies 1994; Pierson 1992, 1996, 2001). It is associated with institutional inertia and reluctance to change. The historical aspect accentuates the impact of previously taken decisions on present and future choices, which occurs when successful action-patterns develop a dynamic that goes beyond the control of the individual actors and eventually becomes an institutionalized practice. It therefore helps to explain why welfare institutions or policies, once instituted, persist even when facing compelling pressures, or put differently, why welfare institutions or policies put off change even in the absence of veto-players. The argument speaks in favor of gradual transformation and has found application within the debate on welfare state retrenchment that commenced following the developments of the seventies.

During the mid 1970s, the occurrence of several parallel processes across affluent countries worldwide has been observed: on the one hand, demographic changes, changes in work patterns and family structures, the emergence of new social risks, and on the other, a slow-down of economic growth, rise in unemployment, intensive globalization of markets and a shift from industrial into post-industrial forms of production. Whilst the first and second wave of globalization, covering the period from the early industrialization until the Second World War and between the Second World War and the 1970s respectively, have been positively associated with welfare state expansion, *globalization effects* of the last decades have tended to be negatively correlated with the welfare state (cf. Swank 2010). Apart from the above-mentioned

concrete changes in the “historical macro-constellation of the national state” (Wincott 2003: 311), a shift in the ideological climate has occurred. The voices of neoliberal and neoconservative criticism¹³ became most prominent regarding the situation in the economy, state and society. Neoliberals, who saw the Keynesian welfare state as an impediment to economic progress, glorified free markets and advocated a minimal state providing only a safety net for the poorest. Neo-conservatives remained in favor of state interventionism, but opposed its alleged moral hazards and demanded stricter conditioning on welfare benefits. The slogan ‘from welfare to workfare’¹⁴ became a new leitmotiv. The negative rhetoric towards the welfare state began dominating political agendas and public discourse particularly in the United States and the United Kingdom during the Reagan-Thatcher era. The social-democratic counter-answer also departed from Keynesianism and developed the ‘third way’ or ‘neue Mitte’ (Giddens 1998; Blair and Schroeder 1998), which was pro-market and proposed modernization of the welfare state, though with different justification. While conservatives sought to correct people’s behavior, social-democrats remained committed to the core values of solidarity, fairness and equality, adapted to the new circumstances. Evidently, there has been an increasing diffusion of ideas across borders, though with diverse policy outcomes. Classic *globalization theories* have examined the impact of economic globalization through market openness on state structures, but have failed to come to common conclusions. Some scholars have argued that international (European) market integration has limited governments’ leeway to correct market failures through national macroeconomic-, labor market- and social policies (Scharpf 1999; Leibfried 2010). Others have observed that despite global pressures, a) welfare states have proved resilient (Huber and Stephens 2001; Swank 2002; Brooks and Manza 2006), b) core welfare structures have persisted even after welfare reform (Pierson 2001), and c) welfare functions have expanded either through ‘social investment’ (Abrahamson 2010; Morel et al. 2012; Hemerijck 2013) or by covering ‘new social risks’ (Taylor-Gooby 2004; Bonoli 2005).

Despite the lack of a shared position on whether and to what extent globalization matters, the trend to apply similar policies in different countries could be observed. The concepts of *policy diffusion and policy transfer* have come in handy as one plausible explanation of this growing transnational interdependency. Summarizing the literature, Obinger et al. identify “learning, emulation, competition and coercion”¹⁵ (2013: 114) as the causal mechanisms behind policy diffusion and transfer. International and supranational organizations have gained increasing

importance in the exchange of practices, generation of ideas and policies, their coordination, and global dispersion. One way of steering social policies, has been through *standard setting*, which found an early application. This includes the activity of the International Labor Organization (ILO), which has been an international front-runner in labor and social security standard setting. Through its *social acquis*¹⁶, the European Union has been establishing minimum social standards, including rules on coordination of social security provisions in support of the freedom of workers within the single market. Recently, intergovernmental organizations have been increasingly resorting to '*soft measures*', as opposed to norm enforcement, which may be more difficult to implement due to the tendency of states to avoid conventions' ratification (Armingeon 2010: 316), or due to their skepticism towards deeper positive integration (Leibfried 2010: 256). In the European Union, the Open Method of Coordination (OMC) is an instrument developed for the purpose of exchanging best practices between states in the area of employment policies that has over time been extended to other social policy areas. Although its effects on countries' national policies have not been precisely evaluated (Busemeyer et al. 2013: 80), the OMC has offered a platform for the dispersion of prevailing policy ideas. It has thereby contributed for the diffusion of the 'activation' paradigm - one of the newest social-democratic ideas (Leibfried 2010: 257) - across Europe. Similar exchange has also taken place within the OECD context (Whiteford 2007). The international financial institutions (IFIs), i.e. the International Monetary Fund (IMF) and the World Bank group, have demonstrated higher susceptibility to the neoliberal paradigm. Armingeon (2010) argues that the shift in the ideological climate has affected the policies promoted by these organizations, which have over time transformed from being propagators of Keynesian ideas to affiliates of the 'Washington Consensus'¹⁷ and 'Post-Washington Consensus'¹⁸. The IFIs' ideological influence on social policy discourses in the developed countries has remained neglected (cf. Deacon et al. 1997), as the affluent democracies on the global scene act more as agenda-setters and less as agenda-takers. The latter can be attributed to developing countries, including the post-communist countries of Eastern, East-Central and South-Eastern Europe, which in times of economic trouble turned to the IFIs for financial help and policy advice. Thus, not only ideas, but also the *coercive elements* of aid- and loan conditionality could facilitate a certain agenda adoption in aid-dependent states. Such coercion has been rare within developed democracies (Obinger et al. 2013: 115), albeit European integration has been identified to constrain members states'

autonomy (cf. Falkner 2010; Leibfried 2010). However, the 2008 global financial crisis, triggered by the bursting of the US housing bubble, was followed by a crisis of the Eurozone, caused by debt-fuelled economic activities, financial sector illiquidity risks and ballooning government borrowing (BBC 2012). As a result, the budget deficit levels in a number of European countries have breached the Maastricht convergence criteria¹⁹ and risked threatening the stability of the common currency, which prompted increased encroachment on national autonomy. The EU responded with financial bail-out disbursements coupled with demands for correcting macroeconomic imbalances (Eurozone Portal 2013), popularly known as austerity packages (cf. Financial Times 2013). An increasing body of recent literature has started exploring the potential effects of the crisis on national public spending, social policies and structures (cf. Greve 2012; Bartlett and Uvalic 2013; Taylor-Gooby 2013; Vaughan-Whitehead 2013). With the crisis under way and the debate on its effects just starting, the future of the welfare states is yet to be addressed.

1.3.1.2 Welfare State Regimes

It has already been stated that the developed welfare states are creations of different historical trajectories. Shared trends notwithstanding, welfare states have been adapting differently to new circumstances, for which purpose it would be useful to illustrate the literature on welfare state clustering.

Titmuss (1974) distinguishes three types of social policy models: *residual*, *industrial achievement-performance*, and *institutional redistributive* model. In residual states, matters of welfare remain private and only as a last resort do social welfare institutions come into play. The industrial achievement-performance model “holds that social needs should be met on the basis of merit, work, performance and productivity” (Titmuss 1974: 31). The institutional redistributive model is characterized by universal provision of welfare. Thus, the welfare state has a pejorative meaning in residual models, a market-complementary role in industrial-achievement-performance states and a rights-based social function in industrial redistributive ones.

Drawing on a traditional distinction between *Bismarckian* and *Beveridgean* social policies, Bonoli (1997) developed a two-dimensional classification of European welfare states.

Bismarckian social policies are contribution-based, earnings-related, and concerned with income

maintenance of employees. Beveridgean social policies are tax-financed, flat-rate, and aim at the prevention of poverty. According to their social policies' features and the level of spending, Bonoli identifies four ideal types of welfare states: Beveridgean/high-spending welfare states (Sweden, Denmark, Finland, Norway), Beveridgean/low-spending states (United Kingdom, Ireland), Bismarckian/high-spending states (France, Germany, the Benelux states), and Bismarckian/low-spending ones (Switzerland, Italy, Spain, Portugal, Greece).

One of the most influential typologies has been that one of Esping-Andersen (1990), who has clustered welfare states into three types of regimes, based on the nexus of the state and market in the distribution system and its influence on social rights and social stratification. The regimes have been labeled as *liberal*, *conservative*, and *socialist (social-democratic)*. Liberal welfare regimes, mainly found in Anglo-Saxon countries, rely on the politically residual social stratum, are market-biased and provide only minimum safety-net for the poor. By contrast, social-democratic regimes, which are typical of Scandinavian countries, are contingent on workers- and middle-class mobilization, and have favored public and universal welfare provision.

Conservative regimes build on the corporatist/etatist tradition in continental Europe, which had introduced occupationally segregated social-insurance programs and had institutionalized middle class loyalty to the political regime. Building on this methodology, other authors (cf. Leibfried 1991; Ferrera 1996; Rhodes 1997) have suggested additional welfare state regimes, such as the *southern welfare model*, for the countries on the south of Europe which made their transition to democracy during the 1970s: Spain, Portugal and Greece²⁰. The southern welfare regime “has historically shared many of the ‘conservative-corporatist’ ingredients” (Ferrera 1996: 30), though at a rudimentary level (Leibfried 1991), related to the constraints typical of the “southern syndrome’: the strength of vested interests, clientelistic collusion, an absence of political consensus, and the weakness and fragmentation of administrative structures” (Rhodes 1997: 15).

The *varieties of capitalism* approach to the political economy (cf. Hall and Soskice 2001b) is closely related to Esping-Andersen’s worlds of welfare capitalism. It distinguishes between *liberal* and *coordinated* market economies depending on the “extent to which firms rely on market mechanisms to coordinate their endeavors as opposed to forms of strategic interaction supported by non-market institutions” (Hall and Soskice 2001a: 33). Among the OECD countries, the Anglo-Saxon economies belong to the liberal market economies and are

accompanied by liberal welfare states, in Esping-Andersen's sense of the term. All other OECD countries are, to a greater or a lesser degree, coordinated market economies. In accordance with their variety, an array of social policy regimes has emerged whose common thread is the development of social policies that are facilitative of the system and of economic development (Hall and Soskice 2001a: 51).

Although they use different methodologies and offer somewhat diverging classifications of the welfare states, what all of these typologies have in common is that they draw their conclusions based on the analysis of the western-centric developmental, constellational, institutional, and ideological traits. Recent literature reveals increased interest for other regions with different political, economic, and cultural realities, examining how much they have been "in the process of emulating the Western model" (Esping-Andersen 1996: 20), converging under the "forces of global capitalism" (Abu Sharkh and Gough 2010: 30), and the extent to which they have been following distinctive and path-dependent welfare trajectories. Before turning to the countries of interest to this book, I revisit the research on the post-communist states subsequent to the fall of the Eastern Bloc.

1.3.1.3 The Post-Communist (Welfare) States – Theories and Regimes

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 2011a). 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* (cf. Manning 2004; Orenstein 2008; Cerami and Vanhuyse 2009), 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 favor 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 (cf. Kovacs 2006; Bohle and Greskovits 2007; Inghot 2008; Fuchs and Offe 2008;

Schubert et al. 2009; Cook 2010; Myant and Drahokoupil 2011). The first discourse underlines the role of the '*neoliberal*' 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 (cf. Kovacs 2006; Cerami and Vanhuyse 2009). These theoretical approaches, borrowed from the western academic thinking, have tried to narrow the theoretical and empirical gap within the welfare literature on capitalist democracies, and will be explored next.

The *socio-economic school* has been one of the rare schools of thought that have considered former socialist countries in its findings. As already discussed above, Wilensky (1975), who included countries like the USSR and East Germany in his comparisons, identified economic growth and demographics as major determinants for social security expansion. Similarly, Haggard and Kaufman (2008) observed that "the high growth of the early Stalinist period" contributed to the expansion of social benefits in Eastern Europe and that "fiscal shocks generated pressures for restraint" (Haggard and Kaufman 2008: 354-5). Various scholars studying the post-socialist transformations have noted that the transition-related economic downturn and fiscal pressures have affected the playing field in the post-socialist countries. However, when it comes to explaining the post-socialist welfare trajectories, economic arguments have played a secondary role, and the focus has been mainly on the specific legacies and actors' choices.

According to the *institutionalist view* welfare state transformation is not detached from previously developed institutional and policy practices. Despite severe changes that have shaken institutional structures and decision-making patterns following the collapse of communism, this approach argues that countries' responses have followed a certain path-dependent logic. Inglot (2008) argues that the welfare state is a "layered construction" (Inglot 2008: 43) of different institutional, policy and ideational components that have been built in the country's blueprint over different time periods. As a result, "after 1989 the new East Central European democracies neither experienced a total destruction and reconstruction of their state (and welfare) institutions, ideologies, and policies "from scratch" nor did they adopt any of the available western models of social policy" (Inglot 2008: 22). Inglot (2008) describes the post-communist welfare states as an

outcome of a Bismarckian tradition of social insurance, which was followed by post-war expansion of social programs for the whole population and was complemented by state's guarantees within the centralized framework of economic planning. However, these shared structures "took on different institutional forms in each country under successive political regimes" (Inglot 2008: 43). In that sense, the adjustment of the former communist states to new circumstances occurred in accordance with distinct national characteristics. The attitude of the national elites towards the legacies of the past and their perception as either assets or threats to the countries' futures has been seen as one of the key components²¹ to the crafting of the post-communist welfare regimes (Bohle and Greskovits 2007). Bohle and Greskovits (2007) have argued that the least favorable economic legacy and the importance of identity issues have helped the *Baltic States*²² embrace the *neoliberal* model, a favorable economic legacy and irrelevance of identity politics facilitated a *neocorporatist* regime in *Slovenia*, whereas the intermediate position of the *Visegrád States*²³ contributed to an *embedded neoliberal* type.

Using an *actor-centered institutionalist* approach to explain the pension systems' reform in the post-communist world, various scholars have pointed to the relevance of *legacies* and *veto actors*. Although pension reform ideas have stemmed from the IFIs, the level of their acceptance has been contingent on the perceptions regarding the financial situation of the public pension schemes (Orenstein 2000; Müller 2001). The perceived financial affordability and sustainability of the public pension fund has created a structural setting of reform acceptance or its rejection. Treating public pension funds as unviable and as a budgetary burden has allowed state institutions that have been biased towards the privatization of old-age security, like the Ministry of Finance²⁴, to have higher leverage (Müller 2001). On the other hand, numerous powerful veto actors have reduced the perceived reform urgency and moderated the intervention into the public, pay-as-you-go schemes (Orenstein 2000). Despite facilitative or blocking aspects of domestic structures, pension system reform has managed to get a foothold in the Eastern European countries. Analyzing the reforms' distributional consequences and their political sustainability in Croatia, Hungary, Poland and Slovenia, Guardiancich (2009) observed that while veto actors may block and dilute reform attempts, conversely, inclusive policymaking "may increase both the adaptability of reforms to changing socioeconomic circumstances and their political sustainability in time" (Guardiancich 2009: 18). Others, looking beyond pensions, had also found that institutional restraints on political executives may have an enabling effect on making reform

happen and endure (Stark and Bruszt 2001). Stark and Bruszt's interest in the ability of democratic systems to reconcile diverse interests did not apply merely to the process; by indicating a negative correlation between horizontal accountability and the levels of poverty and inequality, they also pointed to a qualitative dimension.

Part of the literature on the post-communist welfare state development has explored the effect of the *democratization* on the social policy-making and its contents. According to Schmidt (2004), "democratic constitutions and in particular the age of democracy are important determinants of social policy", and their effects are also then "detectable, when the impacts 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 depends on the overall effect of the factors which influence social policy making. Thus, for instance, a socialist legacy, a favorable constellation of actors and a higher level of economic development guarantee stronger²⁵ 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. Democratic regimes place a higher value on social policies, measured by the level of their social spending (Schmidt 2004; Orenstein 2008), but also case studies on social policy-making, in particular in post-communist countries, suggest 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 doing so, Cook refers to not only representative institutions within democratically constituted systems but also to democratic mechanisms that allow interest coalitions to form, articulate, and influence welfare within a regime.

Newly created democratic spaces have allowed different actors to exercise influence on welfare policies in line with their resources and interests. Inspired by the *power-resources theory*, scholars using the actor-centered approach explore the role of party politics, social class and interest groups in post-communist societies. Political pluralism has allowed different *political ideologies* to surface and manifest in the political arena. However, evidence has shown that they have not replicated western patterns. In contrast to the main assumption in the western literature

that left-wing parties are more likely to pursue pro-welfare policies, post-communist countries have painted a confusing picture. Various studies have shown that, in fact, those parties that identify as 'left' have been more likely to retrench and reform welfare programmes, whilst parties on the 'right' have tended to embrace more populist and high expenditure policies (cf. Orenstein 1998; Lipsmeyer 2002; Tavits and Letki 2009). The reasons for this have been multifold, but principally related to the necessity of adjustment to the dual transition (political and economic) and the interests for European and international integration. Given that the fall of communism had discredited the former socio-economic policies, in order to politically survive, successive communist parties embraced a pro-market agenda. The population afflicted by the economic hardship of the transition has been more likely to trust²⁶ leftist parties in the execution of welfare reform, whereas rightist parties often resorted to populist economic policies in order to stay in power (Tavits and Letki 2009). Lipsmeyer (2002) claims that short-term increase of pension spending under the Right "masks long-term structural and economic changes that reflect a classical liberal ideology, one concerned with privatization and restricting the role of the state" (Lipsmeyer 2002: 643). Orenstein (1998) argues that communist successor parties have been electorally successful when they have embraced a pro-European, pro-reform orientation, and have simultaneously kept "strong institutionalized links with trade unions, nomenklatura business elites and other economically based interest groups" (Orenstein 1998: 474) that have on their part inclined to accepting the costs of transition. Orenstein (1998) distinguishes between the countries of East-Central Europe, which were offered the prospect of European integration, and the rest, where due to the absence of this incentive to voters, communist successor parties tended to rely on economic nationalism. On the other hand, with the discipline of qualifying for membership gone after joining the EU, there has been a rise in protectionist rhetoric vowed by conservative centre-right parties (Vachudova 2008). Some have found that over time all parties across the political spectrum have been converging towards the 'center' (Haggard and Kaufman 2008: 360).

Industrial relations in the post-communist countries have been characterized by weak unions, disinterested employers, and a sort of "pseudo-corporatism' directed by the state" (Schroeder 2006: 114). This has resulted in feeble workers' representation and negligible collective bargaining power, adversely affecting the ability to shape future welfare trajectories. These developments have mainly been attributed to the communist past and the specifics of the

transition (Crowley and Ost 2001; Schroeder 2006). Labor weakness has been mainly attributed to the communist legacies when trade unions were hardly advocates of workers' interests (Crowley and Ost 2001). In the past, the boundary between management and labor had been vague, hence the incomparability of the role of unions in communism with that of unions in corporatist capitalist systems. The transition has heightened the tendency to depart from the communist past and to declare the 'working class' obsolete. Interestingly, the social stratification of the previously (seemingly) classless societies, brought by the transition, has not contributed to the strengthening of class identities. Here, the timing of the transition and the changing notion of 'class' have to be taken into account. Even those authors who argue in favor of the relevance of socio-economic class for policymaking, maintain that if 'class' is identified with blue-collar workers as self-conscious collective actors, then "the death of class is a diagnosis close at hand" (Korpi and Palme 2003: 439). Instead, 'class' refers to "individuals' positions in employment relations and labor markets" (Korpi and Palme 2003: 440) whose changing nature in recent decades is also bound to modify class. In the East, the lack of class identity has aggravated the process of class interest representation, has created space for anger channeling along the lines of other identity-based cleavages and has made the majority of the transition losers vulnerable to illiberal content (Crowley and Ost 2001). The former Yugoslavia has been an extreme example, where economic grievances have been converted by the national republican elites "into nationalist rage, leading to a vicious war and sabotaging chances for liberal democracy for years to come" (Ost 2007: 89). In the West, an erosion of the original configuration characterized by union power and state intervention has been observed, related to increasing employers' efforts to "circumvent the collective organization of labor market interests" (Schroeder 2006: 102). Also, employers entering the post-communist markets had little interest in creating coordinated market economies there (Schroeder 2006: 104). In this sense, certain global trends have been increasingly attributed with an explanatory potential. Additionally, the role of international entities and the spread of their ideas have been gaining importance.

Eastern Europe has been seen as a "testing ground" (Deacon et al. 1997: 149) for different, internationally developed strategies. Various scholars have observed that the social policy agendas of *international agents* have influenced welfare outcomes in post-communist countries (cf. Deacon et al. 1997; Müller 2001; Bohle and Greskovits 2007; Orenstein 2008). Although, as these authors argue, social policy advice has not always followed a clear-cut and uniform pattern,

and its acceptance has been associated with the level of a country's indebtedness and its political and social constellation, certain internationally penetrating ideas have become discernable. These ideas have basically moved between two extremes: the IFIs encouraged 'social liberalism' and ILO promoted 'European welfare conservatism' (Deacon et al. 1997). As 'Washington Consensus' proponents, the IMF and the World Bank, pursued policies of macroeconomic stabilization, liberalization, and privatization as part of their lending strategies. These policies affected social policy reform in related countries through public spending cutbacks, pressure for reduction of the welfare system to a basic social safety net, and pursuit of a privatization orthodoxy. The privatization orthodoxy affected the pension systems, the education systems, and to a lesser degree, the health systems. Poverty reduction strategies focused on social assistance programs targeting the neediest within the population. In contrast, ILO's social policy paradigm has been concerned with decent work, fair globalization, and universalistic social security. In a later contribution, Deacon (2007) observed that in recent years there has been a shift of ideas, in the ILO towards alternatives to universalism, given the altering labor relations, and in the IFIs towards acknowledgment of equity issues. Nevertheless, Deacon (2007) warns that despite emergence of new ideas, particularly within the IFIs, their policies continue to underline the belief in basic and targeted levels of social security, which, in turn, may push "middle classes of developing and transition economies [...] into the purchase of private social security schemes, private secondary and tertiary education and private hospital level medical care" and as result they "may give up their historic role as national welfare state builders that served their welfare needs and take the risk of entering an unregulated and service-delivery influenced global welfare market" (Deacon 2007: 172). The IFIs' influence over the region has been considered most influential, albeit other actors, like the afore-mentioned ILO, various UN agencies, OECD, the Council of Europe, and the European Union have also been present.

Given the aspiration of countries of East-Central and South-Eastern Europe to join the EU, higher influence of the *European integration* process could have been expected than what was witnessed. Some have argued that this has been due to the fact that by outsourcing its advisory role to consultants and consultancy agencies during the pre-accession process, the EU failed to leverage a concrete policy agenda (Deacon et al. 1997). Others have debated the 'European Social Model' (cf. Vaughan-Whitehead 2003; Baum-Ciesig et al. 2008; Schubert et al. 2009), a commonly used term to describe the shared values, objectives, and features of member states'

welfare policies. The ‘European Social Model’ was created to counterweigh the adverse effects of negative integration by “aiming at full employment and social progress, [...], promot[ing] social justice and protection, [...], economic, social and territorial cohesion, and solidarity among Member States”²⁷. Evidence has suggested that in practice, the project of social Europe has been sidelined by the neoliberal logic of the single market and the monetary union (Whyman et al. 2012). Existing welfare diversity in Europe and the reluctance for deeper positive integration have thus left the ‘European Social Model’ a rather fuzzy concept. Leftist forces such as social-democrats and trade unions, which have been supportive of the idea of social Europe, have found that the 2008 crisis and EU’s answer to it have particularly hurt the possibilities for European convergence by exacerbating the cleft between the poorer South and East and the richer North and West (Galgoczi 2013).

In addition to the explanatory attempts, there have been attempts to classify the post-communist states in the framework of existing *typologies*. Having Esping-Andersen’s three-worlds-arrangement in mind and expanding with the southern welfare model, there have been scholars who have assumed the emergence of a new regime. In particular, the post-communist countries that have acceded to the EU have been seen as a distinct welfare model (Fenger 2007; Castles and Obinger 2008; Golinowska et al 2009). Others have come to the conclusion that these countries can be neither regarded as a separate regime nor be fitted among the existing regimes (Baum-Ciesig et al. 2008; Schroeder 2006). The most dominant view seems to be the one which regards welfare state models as hybrids, given their shared features with different types of the existing western models as well as the variety among the post-communist states themselves (Baum-Ceisig et al. 2008; Fuchs & Offe 2008; Cerami & Vanhuyse 2009; Schubert et al. 2009).

As already pointed out, the post-communist countries share many common traits with the Bismarckian conservative tradition, complemented by some universal elements, and during the transition have been under pressure to adopt a more liberal attitude towards their welfare policies. Consequently, *features of both the conservative and liberal models* can be discerned, whereas development of social-democratic forms of welfare policy would be most unlikely to emerge (Deacon et al. 1997). Basinf their work on which of the features have prevailed over time, and using the *varieties of capitalism* approach, Bohle and Greskovits (2007, 2012) detected the materialization of three capitalisms: pure neoliberal (Baltic states), embedded neoliberal

(Visegrád states) and neocorporatist (Slovenia). Other Southeast European States²⁸ have been difficult to classify within a regime, based on Bohle and Greskovits's framework, given the high diversity of their attributes in economic, political, corporatist and welfare sense.

1.4 Hypothesizing the post-Yugoslav Welfare Trajectories

The literature on post-communist welfare regime transformations has tried to narrow an academic gap by integrating the countries of Eastern Europe in existing explanatory frameworks. Still, in the search for plausible explanations, some countries, like the countries of East-Central Europe, have been placed in the limelight of academic interest, while others have remained on the periphery, like the countries of South-Eastern Europe. This particularly applies to the countries of the former socialist federal Yugoslavia, apart from Slovenia and to some extent Croatia, which have been subject to increased research interest happening primarily as a result of their EU integration. Numerous studies or reports, commissioned mainly by the international institutions present in the region (IMF, the World Bank, diverse UN agencies, the Council of Europe, the European Commission), have remained descriptive and partial, as they have depicted the situation usually only in a certain social policy area and within a limited period of time. Few studies have actually tried to shed light on the bigger picture of the post-Yugoslav welfare trajectories. Deacon et al. (1997) inspected social policy responses in the context of conflict, forced migration, and ethnicized nationalism on the territory of the former Yugoslavia and particularly the complex and contradictory role played by diverse international governmental and non-governmental actors. Later, Deacon and Stubbs (2007) looked into the way international agents' policy agendas influenced social policy transformations in the different South-East European states²⁹. Using the 'varieties of capitalism' approach, Cerami and Stubbs (2011) define the countries of South-Eastern Europe³⁰ as *state-influenced market economies*, characterized by a mix of influencing state actions and neoliberal laissez-faire, and thus single them out from *state-enabled market economies* (East-Central Europe), characterized by a mix of market-enabling state interventions, and *state-interfered market economies* (the former Soviet Union countries), typical of more authoritarian forms of economic and political involvement. Stambolieva and Dehnert (2011) took stock of welfare policy changes since Yugoslavia's dissolution and by introducing a combination of historical institutionalism and agency approach laid the basis for a more comprehensive future research.

This study attempts to test the different theoretical approaches elaborated, offering explanations for welfare state development across time and space. It aims at integrating the socio-economic, institutionalist, and agency-centered approaches in a single framework that can comprehensively account for the different welfare regime types emerging after Yugoslavia's dissolution. The four post-Yugoslav country cases of interest here - Slovenia, Croatia, Serbia and Macedonia - have demonstrated sufficient distinctive indicators that allow formulation of meaningful conclusions. The other successor states have been left out. The post-conflict context of Bosnia and Herzegovina makes it especially difficult to classify due to its extreme fragmentation and complexity in a milieu of limited sovereignty. Montenegro has exhibited similar features with Serbia, and has only after its full independence (2006) started showing signs of altering this approach. Kosovo's welfare design has been typical of its unfinished state-building process. Its dependence on international support brings it in close relation with the Macedonian model.

The research uses the comparative method to observe the changes of the dependent variable (welfare state) across the post-Yugoslav region after 1989 and to identify and correlate the explanatory variables. Case selection is based on the *most similar case design*, which rests on Mill's *method of difference* (cf. Mill 1843; Przeworski and Teune 1970) - it observes conditions/circumstances in the separate cases which are common, in order to obtain the variables which have made the difference. Similar features are thus controlled (*ceteris paribus*), whereas inter-state variations are attributed to the effects of varying factors.

The *dependent variable – the welfare state* – is what differs across the similar country cases featured by similar challenges. The research concentrates on the narrower notion of the welfare system, encompassing protection from the main social risks through pensions, healthcare, labor market, unemployment protection, and social protection policies, leaving out other social services provided or regulated by the state like education, housing etc. The transformation of the welfare systems includes parametric changes as well as paradigmatic reforms which affect the system's financial, institutional and benefit structure. The dissertation dissects these changes according to each policy area and finally connects them in the larger picture of welfare state change. Coming back to the previous discussion on definitions and terminologies, given the lively welfare activity under socialism and the closeness to the continental European tradition of welfare development, the selected countries are described as welfare states. Other terms are in

use as well, such as welfare system, welfare regime, social security system. Social policy and welfare policy are also used as synonyms.

Regarding the *independent variables*, the research draws from existing theoretical considerations already at hand and hypothesizes their potential effect on the different outcomes. Several key factors are thus identified: a) the initial conditions of transition, in particular the level of economic development, inherited strength of the welfare system and the different circumstances that accompanied the secession; b) economic transformation and progress achieved; c) the success of the democratic consolidation in general and its institutional guarantees, participation possibilities, and types of party and political profiling *in concreto*; and d) the intensity of international exchanges, particularly related to aid/loan conditionality (predominantly IFIs) and the process of European integration. Similar to the evidence drawn from the example on other states, this inquiry also suggests that none of these variables can individually claim explanatory supremacy, but their combined effect allows formulation of some plausible *assumptions*: The inherited differences between the former republics, expressed through the different levels of economic development, and the national elites' choices at the onset of the secession survived and were reflected in the different welfare outcomes twenty years on. Furthermore, economic prosperity and democratic consolidation have proven conducive to the preservation of the existing welfare structures. Democratic consolidation has increased the possibility for active political participation and democratic control of governments' actions. Thereby, ruling parties' identification on the left-right spectrum has been less informative. When the need for reform has been on the agenda, it has allowed room for dispersion of ideas across borders. The International Financial Institutions' proposals suggesting less state involvement in the organization and provision of social security found fertile ground in economically less viable, financially dependent and democratically defective systems. The process of European integration has also increased the likelihood of international exchanges, in this case, incorporating a social dimension. Its role has, however, been rather uneven. The most recent global financial and economic crisis has, on the one hand, restricted the national playing field and the possibility for isolated decision-making on welfare policies, and on the other hand, facilitated prevalence of anti-welfare sentiments on international and European level. Table 1 Research Framework summarizes the main findings regarding welfare regime developments, the explanatory factors and the main assumptions.

Table 1 Research Framework

Welfare Outcomes	Independent Variables	Hypotheses
<p>SLOVENIA</p> <p>Neo-corporatist Approach</p> <p><u>Welfare regime</u>: social-democratic and conservative traits</p>	<p>Communist (Yugoslav) legacy (1945-1990)</p> <ul style="list-style-type: none"> - Common institutional design; - Diverging levels of economic development; - National elites' confrontation. 	<p>Initial conditions have been a strong predictor of post-communist welfare regime trajectories.</p>
<p>CROATIA</p> <p>Accommodating Approach</p> <p><u>Welfare regime</u>: conservative, social-democratic and some liberal traits</p> <p>SERBIA</p> <p>Paternalistic Approach</p> <p><u>Welfare regime</u>: conservative traits</p> <p>MACEDONIA</p> <p>Neoliberal Approach</p> <p><u>Welfare regime</u>: liberal and some conservative traits</p>	<p>Domestic factors</p> <ul style="list-style-type: none"> - Transition to market economy, economic development; - Change of political regime, democratization (role of actors, institutions). <p>External factors</p> <ul style="list-style-type: none"> - Extraordinary circumstances (wars and post-conflict context, bilateral issues); - International agents' agendas. 	<p>Welfare regime change has been a product of the interplay between external influences and domestic interests.</p> <p>(Democratic consolidation (reinforced by elites' choices and social mobilization) reduces the susceptibility for an internationally influential neo-liberal reform agenda)</p>

A final note on the *data collection* of this qualitative research project is in order. The country case evaluations were carried out based on analysis of legal and policy documents, reports, and secondary studies. Important data sources have been official national statistics, quantitative data collected by international organizations and other secondary studies. Availability of literature and data on the different countries has been quite inconsistent. Lack of data, particularly for the period of the nineties as well as the presence of contradictory data, depending on source and methodology used, aggravated their interpretation and comparability. In order to fill in the literature and data loopholes, I undertook study trips, each lasting at least a week, in all of the four countries that are the focus of this dissertation. Intending to complement the understanding of the region, and get personal insights and clarifications, I also carried out both personal and telephone interviews. Four to five interviews per country took place with area experts, former government officials, and trade union representatives. The interviews were semi-structured, followed a similar pattern, and were mainly carried out in the local language.

1.4.1 Summary of Main Findings

The former Socialist Federal Republic of Yugoslavia developed a rather generous welfare system practically from scratch. Although social insurance of some categories of workers against certain social risks previously existed in the Kingdom Yugoslavia, practiced on the territories of Slovenia, Croatia and Vojvodina (part of Serbia), it had remained largely underdeveloped and inconsistent in implementation. The Federation constructed a mixed Bismarckian-Beveridgean system that comprised of 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, among 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. Except for the starting period of so called ‘administrative centralism’ when the federal budget was the main source of financing social expenditures, following the introduction of the ‘self-management’, the social security system was mainly financed from personal income contributions. Yet, despite the shared system, inherent differences, related to economic structure and allocation of resources, created discrepancies among the different regions (former republics and provinces). As a result,

the commitment to welfare provision could not be equally upheld. In practice, this resulted in social programs of varied scope and quality. The enforced greater autonomy of the federal units during the seventies underpinned diverging trends which particularly came to the fore after the collapse of the federation.

The economic 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 GDP growth rate decreased from six percent at the beginning of the 1980s to almost zero in 1989, the unemployment rate reached around 15 percent despite job protection policy, inflation rose to 120 percent in 1989 and real wages decreased (Savezni Zavod za Statistiku 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 Slovenia and Serbia placed in between. 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, but this 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 who had very different ideas on how to solve economic problems and deal with growing frustrations. Instead of looking for mutually acceptable exit solutions from the crisis, competition among the national political elites sharpened and eventually culminated in Yugoslavia's violent break-up.

The painful secession made a difference for the post-Yugoslav states when compared to the rest of the post-communist countries. For instance, the choices of the national elites in Serbia and Croatia that led to war, Slovenia's war avoidance, Macedonia's own inter-ethnic conflict, and the national post-secession and post-conflict responses significantly impacted the countries' future paths. Subsequent democratic consolidation, economic progress, political choices, social organizing, and international (European) integration revealed differences in pace and substance, and the combination of these factors guided the profiling of the individual welfare systems. In the last couple of decades, the welfare outcomes, that ultimately came to be, range between the two extremes of the comprehensive welfare state of Slovenia and the residual welfare regime of

Macedonia. Thus, as suggested by the institutionalist argument, the shape that the welfare systems of the different countries took seems to reflect the inherited initial differences among the republics. But the combined effect of other influencing factors underpinning the transitional political economies has also accounted for the different approaches to welfare. The design of these approaches, drawing upon certain institutional traditions and indicating the (political) relationship between individuals, communities, and states, could be summarized as: *neo-corporatist* (Slovenia), *accommodating* (Croatia), *paternalistic* (Serbia) and *neoliberal* (Macedonia). Some introductory remarks, presented on a country by country basis, paint a tentative picture of the welfare changes and the conditions that underscored them.

Slovenia is generally perceived as the most successful post-socialist country from South-Eastern Europe, if not wider. Its welfare model exhibits features of a mixed corporatist conservative (Bismarckian) system and social-democratic (Beveridgean) system. Smaller reforms were introduced in the field of the pension and healthcare policies. Unemployment benefits were kept relatively generous despite emerging retrenchment tendencies. Activation strategies soon became an important part of Slovenian labor market policies. Social assistance schemes have not been merely symbolic as in the rest of the post-Yugoslav countries. “Contrary to some other post-socialist countries, Slovenia did not experience the so-called ‘welfare gap’, since the transition from socialism to capitalism in socio-economic terms was rather smooth” (Kolarič et al. 2011: 290), and the “country’s affluence, social peace and consensualism prevented shock therapy from being applied to any policy but monetary stabilization” (Guardiancich 2011a: 312). Slovenia quickly developed a fully fledged democracy with built-in institutional mechanisms conducive to consensual decision-making and was the first³¹ from the region to join the European Union (2004) and adopt the Euro as currency (2007). International and European exchanges inspired welfare reform proposals, but corporatist political culture and strong social partnerships prevented deeper reforms and kept social service provision predominantly public and based on the solidarity and equality principles. Both center-right and center-left governments’ attempts³² to push reform proposals by circumventing social partners backfired, costing the governments their mandates. The latest global and Eurozone crisis posed a serious challenge to the country’s coordinated market economy approach and reliance on public policies, for the first time after the collapse of Yugoslavia.

Croatia retained the mixed Bismarckian/Beveridgean model while introducing some liberal elements. The different policy areas of the welfare system kept a wide coverage base, which was even expanded to include new categories that emerged as a result of the war. Major reform was carried out in the pension system, introducing a mandatory fully funded private pillar, which was a proposal promoted by the World Bank. 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. Although Croatian political elites did not demonstrate a tendency towards an inclusive decision-making style, any one-sided reform attempts that undermined the public character of the system or the existing social rights was met with severe opposition from different social groups. While satisfying the needs of the war veterans and war victims was considered a “moral obligation” (Stubbs and Zrinščak 2009: 128), which in the aftermath of the ethnicized conflict spurred clientelist relations between these groups and the political elite, other groups had to fight to improve their position. In particular, the abandonment of the authoritarian rule of the nineties had an empowering effect on diverse social groups. Thus, due to pensioners’ pressure, with time, several interventions were made in the pension system in order to mitigate adverse effects from the partial privatization. Furthermore, a government initiative to introduce mandatory supplementary health insurance was resisted by the opposition, trade unions, medical association, and the Croatian Pensioners Party), backed by the public, which forced the government to yield (Vidović and Pauković 2011: 105). If trade unions were unsuccessful in halting labor market liberalization reforms, undertaken by the center-left government (2000-2003), the EU accession process brought them on the negotiating table and facilitated their profiling into an important decision-making factor. Additionally, Croatian center-right governments, which prevailed throughout the transition, chose to accommodate various social needs and kept public spending, including social spending, high at the expense of increasing indebtedness. The final phase of the EU integration process coincided with the global economic crisis and thus unraveled twofold effects: on the one hand, it exposed the government’s use of social policies as cover-up of detrimental corruption practices and facilitated political change at the 2011 elections, but on the other hand, it also limited the playing field for future policy alternatives to austerity.

Serbia retained most of the features of its inherited conservative welfare system and some reforms have kicked off in line with the dominant liberalizing trends. Its welfare system suffered tremendously during the nineties whose whole functionality was brought under question under the Milošević regime, which tried to artificially keep it running in the midst of economic and political isolation. After the regime change in 2000, it became a task of future governments to not only transform, but firstly rebuild the social security system. The first democratic, center-left government initiated a liberal economic restructuring programme that was moderated by socially sensitive policies. The labor 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 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, necessitating more fiscal discipline (Vuković and Perišić 2011b). The health system sustained the status of a public good, radical reform steps concerning social protection were avoided too. Following the assassination of progressive Prime Minister Djindjić in 2003, ensuing center-right governments slowed down the overall process of reform, partly as a result of the more conservative approach of Prime Minister Koštunica and partly because the governments were often blocked by the many coalition partners, who, treated their respective ministries as political spoils. In principle, Serbian decision-makers reinstated a conservative welfare model in a top-down approach, albeit offering benefits and protection at a very modest level, which have been unable to make-up for the transitionally induced social stratification. Therefore, state intervention was additionally used to regulate the poor and buy social peace. Weakened trade unions were able to neither assert themselves as a relevant bargaining factor nor mobilize the exhausted citizenry. Open divisive political issues related to Yugoslavia's secession and the wars³³ fed national skepticism towards international involvement and were constant domestic attention diverters, thus providing a fertile ground for such paternalistic forms of policy-making. These issues also prevented the EU³⁴ to play the same integrative role as in Croatia. The global economic crisis of recent years coincided with the rule of a center-left government (2008-2012) and reinforced the leverage of international (European) feedback. The crisis also brought to light inherent domestic problems of oligarchic economic capture and

corruptive exploitation of public resources, which although in a setting of socio-economic hardship facilitated political change, bringing former nationalists, now reformed populists into power at the 2012 elections, nevertheless, did not reverse the process of growing susceptibility to international influences.

Macedonia proved most susceptible to the neoliberal trend, as it gradually started abandoning the inherited welfare system and developing a residual model of welfare. The country undertook reforms in the pension system early on, first by its fiscal tightening and then by opting for the multi-pillar model advocated by the World Bank. Reforms in the healthcare system advanced more slowly; however, over time private financing and private provision of services expanded, and when combined with insufficient insurance coverage and deteriorating public provision, they contributed to the making of an exclusionary healthcare system. Apart from Serbia during the nineties, Macedonia consistently exhibited the worst socio-economic indicators - lowest levels of economic development, soaring unemployment and inequality. Despite alarming indicators, spending on unemployment benefits and social assistance schemes continuously dropped. 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 (Gerovska-Mitev 2007: 135). Political elites exploited the grim socio-economic picture to install clientelistic relations with political supporters who expected employment and benefits in return for votes. Both favors and support were distributed along ethnic belonging and party affiliation lines. The highly divided society and dysfunctional democracy undermined the already weak social mobilization capacity. Unfavorable external conditions³⁵ and related blockade of Macedonia's Euro-Atlantic integration also undercut the potentially positive role that the EU could play. Still, unlike in Serbia, Macedonian political elites were not skeptical towards international involvement, quite contrary: cooperation with the international factor proved important for survival of the new state, though its presence was often (mis)used to justify unsatisfactory performance in various spheres and conceal illegitimate or criminal behavior. The receptiveness to the IFI's neoliberal agenda in the area of social policy may well be related to this. Interestingly, the Macedonian economy was less affected by the global economic and financial crisis than its regional peers (EBRD 2012). A highly controversial project 'Skopje

2014', consisting of the center-right government's investment in construction of neo-classical buildings and sculptures, may have artificially kept a higher economic growth rate. However, in 2012 the impact of the Eurozone crisis began to affect Macedonia through reduced remittances, lower export demand and lower foreign direct investment (Ibid.). Given the country's fiscal dependence on international financing sources which required more fiscal discipline and the government's irresponsible splashing of public resources without backing in the real economy, it was the welfare sector which suffered most.

1.5 Structure of the Book

The dissertation further develops these arguments in the individual chapters and finally contrasts them in a comparative perspective. This chapter introduced the research goals, the literature review on welfare state development, laid out the research framework and the summary of the findings. The dissertation is further structured as follows. Chapter two provides historical background to the political economies across the former Yugoslav region and illustrates the welfare system developed in the former socialist federal Yugoslavia, underscoring the economic and political conditions which underpinned its formation. Chapters three to six deal with the country cases individually. They outline the economic, political, and welfare state transformations in the country following the secession, and continue on to give a more detailed account of the social-policy making before eventually assessing the interplay of the different factors. The final chapter presents a comparative assessment of the four cases, confronting the welfare outcomes and explanatory variables.

2 Historical Legacies: Main Political and Economic Processes and the Development of the Yugoslav Welfare System

The process of dissolution of the Socialist Federal Republic of Yugoslavia officially started in the year of 1991 through the formal secession and declarations of independence of its former constituent republics, first Slovenia and Croatia, then Macedonia, Bosnia and Herzegovina and finally Serbia and Montenegro³⁶. Even before the official break-up multi-party elections were held in all the republics, which announced the end of communist monopoly after half a century of undisputed rule. The main cohesive force which kept the peoples of Yugoslavia together after the Second World War and the main ideological force behind Yugoslav socialism were thus dismantled. The break-up of SFRY was an official manifestation of a process of segregation initiated at least a decade earlier when differences among the national communist elites regarding the future of the federation's political and economic order sharpened.

The different approaches were reflected in the post-socialist paths of the successor states. Inherited regional differences intertwined with common institutional legacies in the creation of the new national structures. In order to understand the developments which characterized the transition of the independent states up to date, it is important to develop a better understanding of previous periods, such as the conditions of the time spent apart under Ottoman and Habsburg rule or the time together as part of the Yugoslav community. In order to follow the specificities of the post-Yugoslav transitions, it is useful to come back to some of the processes which shaped the former Yugoslav societies. The following pages provide a concise overview of the main political processes, the economic and social developments, and the influence of the historical legacies, focusing particularly on the conditions after the Second World War. The chapter ends with a description of the welfare system generated under socialism.

2.1 The Historical Divide: Ottoman vs. Habsburg Rule

For centuries the territories of Southeastern Europe had been divided between the two (Ottoman and Habsburg) empires. Following Ottoman expansion to the Balkans in the sixteenth century, most of the Balkan territories fell under its rule. Although under the many Ottoman-Habsburg wars the border was subject to change, it is fair to say that Slovenian and Croat territories

remained predominantly in the hands of the Habsburgs, while Ottoman ruled areas lay south of them. Both empires, though absolutist, were governed through intermediaries who were differently organized in the two states.

The Sultan based his authority on the state's military supremacy and the political organization was built in support of that goal. Members of the military were given temporary tenure of conquered lands. There was also a network of provincial Ottoman administration charged with the collection of taxes for the central state. The local village communities and the church organized civic affairs. Over time as the military supremacy of the empire started fading, the central authorities started farming out the tax collection system, usually to the local officials, many of who abused their newly gained competences for personal gain at the expense of the local population. Corruption, bribery, sale of offices became a common practice (Jelavich 1983a). Gang rampage across the weakened empire further accentuated the grievance of the peasantry.

The Habsburg monarchy owed its expansion to political and personal alliances rather than military occupation. It therefore had to rely on the local nobility for survival, which were *ab initio* charged with administration of taxes, organization of both civic and military affairs and political representation. The thus established order allowed little space for corruption or gang rampage (Jelavich 1983a: 167). When the monarchs of the eighteenth century initiated a set of peasant reforms in purpose of higher centralization, such as the abolition of serfdom, they came up against the local nobility. Croatian nobles additionally frowned upon central administration of the south frontier and its settlement with Serb population (Jelavich 1983a: 148). The question regarding the level of state centralization as well as the Serbo-Croatian relationship would later become one of the key controversies in Yugoslav history.

Both the Ottoman and the Habsburg Empires were predominantly agricultural and had highly extractive economic institutions (Acemoglu and Robinson 2013). Regardless of the type of hierarchical organization, both countries' strength relied on rural labor. Entry into other professions was very restricted and commerce was highly controlled. No public services were provided in return. In the Habsburg monarchy, the local noble and church authorities provided health, educational and other social services, whereas under the Ottomans such services were

provided by religious foundations (Jelavich 1983a: 59, 131). Economic progress was opposed for the purpose of preservation of the political status-quo (Acemoglu and Robinson 2013). Austro-Hungary was slow in catching up with the rest of Europe. However, some industrial progress was achieved on Slovenian and Croatian territories. Ottoman dominated territories remained largely backwards. For instance, in the early twentieth century there were 441 industrial enterprises operative in Slovenia, 271 in Croatia and 47 in Ottoman ruled Macedonia (Lampe and Jackson 1982: 311). Serbia, which had been autonomous with the Ottoman Empire since the beginning of the nineteenth century and in 1878 became an independent state, had 464 industrial enterprises operative on its territory (Ibid.). Nevertheless, it would be false to interpret that all the regions had abandoned their principally agrarian structures.

The majority of the population did not have a say in decision-making matters. Only in Slovenia did the Austrian introduction of universal mail suffrage in 1907 have the effect of increased political influence (Jelavich 1983b). This was not the case with Croatia, whose politics was characterized by the power-struggles with Hungarian supremacy. In general, the beginning of the twentieth century saw the upsurge of national liberation movements, which coinciding with some of European powers' interests, drove the Ottomans out of the Balkans. The end of the First World War also saw the demise of Austria-Hungary and made way for the creation of a new Serb-Croat-Slovene state.

2.2 The First Yugoslav Amalgamation (1918-1941)

The post-war Kingdom of Serbs, Croats and Slovenes was founded as an unitary parliamentary monarchy headed by the King of Serbia. Although the country was a multi-national state, the relations between the different nations, particularly the Serbs and Croats grew uneasy. Other nations, which were not mentioned in the country's name, were not recognized. Besides any related national antagonisms, class issues became part of the political struggle too. Universal male suffrage³⁷ made the Communist Party a serious political force. The Slovenian and Croatian political representatives and the Communist Party opposed the new constitutional order which favored centralized administration of the state under Serbian prevalence. The Communist Party was outlawed by an act of Parliament in 1921 (Calic 2010: 95). Other oppositional parties, such as the Croatian Peasant Party, soon faced a similar destiny (Jelavich 1983b: 155). The frictions

culminated in the proclamation of a royal dictatorship by the Serbian monarch in 1929, when the state's name was also changed to Kingdom of Yugoslavia. Shaken by perpetual political turmoil and vexed by economic backwardness, Yugoslavia was eventually sucked into the Second World War.

Between the two world wars, Yugoslavia struggled to overcome underdevelopment with very little success. The country remained largely miserable, dependent on agriculture and with an embryonic industry. The agricultural reform of 1919 completely abolished serfdom which had existed on the former territories of Austria-Hungary, but the land fragmentation negatively affected productivity and “poorer peasants [...] were often unable to feed themselves” (Singleton and Carter 1982: 85). Moreover, the world farming crisis towards the end of the 1920s pulled down product prices and made agriculture economically unviable. Peasants usually worked both on their lands as well as in the industry in order to survive (Calic 2010). Put differently, the argument implies that industrial workers' subsistence was rurally subsidized. This consideration aside, by the 1930s only 11 percent of the population was employed in the industry and artisanry (Ibid.: 105). Nascent industrial development was also prematurely undercut by the Great Depression. Regional discrepancies continued to matter. In 1938, 88 per cent of the total capital was located in the developed areas, which included Slovenia, Croatia and Serbia (without Kosovo) (Pilić 1984: 27). Wage differentials were also noteworthy, amounting 24,09 dinars per day in Ljubljana, 23,19 dinars in Belgrade, 22,02 in Zagreb, and 16,23 in Skopje (Singleton and Carter 1982: 78). The central government attempted to narrow the regional gap with state interventions as well as infrastructure development, however as Singleton and Carter argued, “what little was done merely irritated the northerners, without noticeably benefiting the southerners” (Ibid.). Economic decisions followed an authoritarian logic, not only when it came to managing the regional differences. The state was deeply involved in controlling the economy by protectionist production policies, export monopolism, awarding of mining concessions and industrial subsidies (Ibid.: 60). The country was largely dependent on foreign capital investments as well as foreign loans. The adverse effects of the Great Depression were not limited to the economic development but also affected Yugoslavia's capacity to manage foreign debts. Most of the money borrowed was spent on building rail infrastructure (Ibid.: 67). Problems related to underdevelopment and sluggish modernization, such as sanitary infrastructure, housing, education, healthcare, poverty etc. also demanded attention, but were less of a fiscal priority.

Some parts of Yugoslavia, such as Slovenia, Croatia, Serbia (Vojvodina), had a longer tradition of social insurance: first, in the form of voluntary insurance, and starting from 1887, as compulsory insurance for only certain categories of insured workers and very limited number of social risks, such as injury at work and sickness (Milosavljević 1988). Social services were also provided by church communities. Nevertheless, the major social safety net was still assured by the family and this was the case especially in the southern regions. Social insurance against injury at work and sickness was included in the Kingdom's legislation, but in reality provided only symbolic relief (Calic 2010). Worker protection was at a low level and there was inconsistency between the proclaimed and the actual working conditions (Ibid.). The first general social insurance of workers, covering a range of social risks, across the entire territory of Yugoslavia was introduced in 1922, but its implementation did not begin before 1937, again with a number of inconsistencies (Milosavljević 1988). In 1939 there were 728.494 socially insured workers, compared to 439.163 in 1923 (Calic 2010: 108)³⁸. What little was achieved in the economic sense would soon suffer complete ruin as a result of the Second World War.

2.3 The Legacy of Socialist Yugoslavia (1945-1991)

2.3.1 Main Political Processes

The Second World War was the main reason behind the discontinuity of old and new Yugoslavia. It allowed the Communist Party of Yugoslavia, as leader of the resistance, to become the main decision-making factor regarding the future political and socio-economic order of the country after the war had ended. This was possible, because the old leadership of the Kingdom of Yugoslavia after fleeing to London in 1941 had lost its legitimacy. On the other hand, there were the military formations of the Serbian Chetnicks and Croatian Ustashi who collaborated with the occupation forces and recruited people based on chauvinist and nationalist ideas. It was only the liberation movement organized by the Communist Party of Yugoslavia which offered the peoples of Yugoslavia the ideas of liberty, (national) equality and social justice. The constitutive acts of the Federal People's Republic of Yugoslavia (FPRY) abolished the monarchy and its entire legal system and proclaimed a federation of six constituent republics. The 1946 Yugoslav constitution was inspired by the 1936 Soviet constitution (Bilandžić 1985; Marković & Srdić 1987; Klimovski 1987; Dokmanović 2009) and its entering into force marked

the beginning of what was known in Yugoslav history as the phase of *administrative socialism or state centralism*.

This was a phase in which there was high degree of concentration and centralization of competences of the federal authorities over the republics and of the republics over the local authorities. The power of the assembly was rather limited and the federal government had both executive and legislative power. Based on the Soviet experience, the state property became dominant and had supremacy over other kinds of property. The Communist Party not only exercised great influence over the functioning of the state and the economy, but its structures practically merged with the state institutions. According to Bilandžić (1985), the main reasons which conditioned the development of such a centralized system were the historical circumstances like: the fight against the counterrevolution; the struggle for defending the independence of the new Yugoslavia; the difficult economic situation and the ambitious plans for industrialization of the country (Bilandžić 1985: 118). And even though the Kingdom's former centralized order was rejected by the new authorities and criticized as a "big mistake" (Tito³⁹ cited in Bilandžić 1985: 107), the post-war federation was nevertheless centrally organized.

This sort of inconsistency between ideology and practice, theoretical wishes and reality, must have created confusion in the Communist Party regarding the future for the new socialist state. Still, among scholars there is a belief that had it not been for the break-up of the ties between the communist parties of Yugoslavia and of the Soviet Union at the onset of the Cold War, the specific Yugoslav model of socialism would have never been invented (Bilandžić 1985; Dokmanović 2009). On the other hand, it was exactly the Yugoslav specificities which led to the conflict between the two communist parties in the first place, which peaked in expelling the Communist party of Yugoslavia from the Cominform⁴⁰. For instance, despite the pressure from the Allies, including the Soviet Union, to cooperate with the representatives of the old pre-war Yugoslav order, the leadership of the partisan movement, relying on its sense for diplomacy, not only positioned itself successfully amid the Allies' post-war geometry, but also managed to achieve international recognition. Later on, the Yugoslav specificities were also manifested in the rural population's resistance to the implementation of the farm collectivization process, which eventually led to poor results, and finally to the official abandonment of this Soviet-inspired measure in 1953. Its unsatisfying implementation was used as an excuse for Stalin's

criticism towards Yugoslavia (Bilandžić 1985: 155). Generally, however, it was Soviet policy to lead the rest of the communist European countries not only by example, but to literally make them politically and economically dependent and submissive.

After the break-up with the Communist Bloc, Yugoslavia had an “identity crisis” (Simčič 2008: 373), and given that the alternative system based on multi-party politics and market economy did not appeal to the Yugoslav communists, new solutions were sought. Internal party discussions that took place throughout 1948 and 1949 shaped the way forward. Tito's speech in front of the National Assembly of Federal People's Republic of Yugoslavia on 27th June 1950, announcing the adoption of a “Law on management of the state economic enterprises and upper economic associations by the workers' collectives“, under the slogan: “Factories to the Workers-the Land to the Peasants“, introduced the start of a new phase – the phase of *self-management*.

In principle, the self-management phase lasted until the dissolution of Yugoslavia. Its introduction meant finding a new philosophy to oppose the previous state centralism and make a statement against the Soviet-type of communism. In a way, Yugoslav communists already had some experience with self-management during the war, when decisions and organization of power took place in a decentralized manner⁴¹. At the 1952 Congress, the Party decided to limit its own competences and influence over matters of the state and the economy. At the same Congress the party was also renamed as League of Communists of Yugoslavia. The 1953 constitutional act⁴² envisaged clearer distinction between legislative and executive structures, as well as a strengthened role of the judiciary. More of the federation's competences were to be transferred to the federal units and the local authorities. Cutbacks in the central administration and its privileges were foreseen. Party interference in state and economic affairs was to be limited.

The rejection of Soviet communism and the reform debate made way for the emergence of contending ideas. Milovan Djilas, distinguished revolutionary leader and party official, became a prominent dissident figure due to his views on the Yugoslav political order. As a fierce opponent of the Soviet system, he extended his criticism to Yugoslavia. Identifying the creation of a party-bureaucratic elite which started monopolizing power, positions and privileges, he went on so far as to propose pluralization of social and political life (McFarlane 1988). Kardelj, an eminent

party theorist, who was charged with the drafting of the new constitutional act, shared the ideas for greater democratization of the system, however, after Tito's intervention Kardelj pulled back while Djilas did not (Simčić 2008: 422-3). In a style which the party sought to overcome, it then condemned Djilas's beliefs. Democracy was not a bad word in socialist Yugoslavia, but a strict interpretation underlay the concept. Following Tito's instructions, in 1954 Kardelj summarized that "Djilas's concept of democracy is not ours, is not socialist, but is a mixture of an anarchistic and bourgeois-liberal form" (Bilandžić 1985: 200). In such a constellation, the implementation of the proposed reforms was delayed and was possible to be officially disobedient towards the proclaimed, *de jure* as well as *de facto*. Klimovski (1987) points out that some formal legal acts, which were adopted after 1953, were not in line with the constitutional act. For instance there were acts which supported the Federal Executive Council's⁴³ tendency not to submit to parliamentary control or which allowed "personal overlaps of the Federal Executive Council with the organs of the federal administration"(Klimovski 1987: 52 [my translation]).

Given the existing dualism between the administrative-centralistic logic and the self-management ideology, the subsequent period was characterized by contradictory solutions. The established bureaucratic structures in both politics and economy were not too eager to give up their power, while the self-management system was in a starting phase. The ideological quandary intersected with the historical center-periphery cleavage on Yugoslav territories. The centralists received a serious blow after the Ranković affair. In 1966 Ranković was removed from the State Security Agency after mainly Kosovar and Croat objections to his operations (McFarlane 1988), which had been top-down and potentially disruptive to the multi-national character of the state. Radical organizational changes followed. A series of constitutional amendments⁴⁴ transferred the center of power from the federation to the republics and autonomous provinces. Finally, the 1971 constitutional amendments⁴⁵ represented a fundamental make-over of the entire political system. The source of sovereignty was no longer derived from the federation, but lay within the socialist republics and socialist autonomous provinces. The federation could carry out very limited functions in the joint interest of all peoples and ethnic groups of Yugoslavia, as defined by the Constitution. After this, it became "very difficult to classify Yugoslavia in the typical categories of federations or confederations" (Bilandžić 1985: 378 [my translation]).

The 1971 restructuring was the proposed answer to social unrests and an upsurge of nationalism, particularly in the Croatian political and intellectual circles (McFarlane 1988: 26-7). The deepening of the self-management model had twofold effects. On the one hand, it facilitated social activism. Most outspoken were the students, who inspired by similar events worldwide, in 1968 revolted on the streets of Belgrade claiming greater participation, economic possibilities and social justice. On the other hand, self-management made way for competition among the federal units over the resources managed by the federation. The richer Croatia complained against the centralized redistribution of surpluses and demanded greater economic liberalization. The liberal Serbian leadership at the time shared the Croatian views and saw them as a solution to the internal conflicts. Following Tito's intervention, both leaderships were disempowered; though interestingly, some of their ideas, in particular with regard to the transfer of decision-making power, found a way into the new constitutional framework. Most probably recognizing the likely danger that strengthened local centers may represent for the federal unity, Tito warned against "several party centers that would function opposed to the interests of the whole – the League of Communists of Yugoslavia"(Tito 1982: 146 [my translation]).

Throughout the entire course of the Federation, the League of Communists of Yugoslavia had a central role in the steering of political, economic and social processes. Even when the party decided to restrain its operating field, this still came as a result of a party decision. Political debate and social activism were not unknown categories in Yugoslavia; however, any divergence from the mainstream was controlled and channeled back on track. No matter how strong the trends for democratization, decentralization, or for a more rational economic performance were, the primary status of the party remained intact. The shift in the political control from the federal to the national level merely strengthened national elites. The political monism made it difficult for the idea of self-management driven pluralism to come to life. Another thing was that the self-management and its further breakdown through the concept of associated labor was an unpredictable Yugoslav experiment - having been designed and tested for effects along the way. "Although that was probably not the intention of the new constitutional conception of a federation which commenced after the 1971 amendments, such constitutional practice fragmented the whole to the advantage of the independence of the associated parts, which hazardously disrupted the balance of the goals which are reasons for the existence of any federation" (Marković and Srdić 1987: XXVIII [my translation]). After the introduction of a

loose federation, the failure of the self-management system in the form of associated labor, and especially after Tito's death in 1980, "the republican elites started thinking about Yugoslavia as a transitional creation" (Arhiv Jugoslavije 2009).

2.3.2 Main Economic Processes

In the period between the World Wars Yugoslavia was economically underdeveloped. 78% of the population was living on agriculture, and only a small number of people were employed in the industrial sector which contributed up to one tenth of the national income⁴⁶ (Marsenić 1984: 125). The devastations caused by World War II destroyed a large part of the already modest economy. The country suffered tremendous losses in human capital, livestock, railway infrastructure and industry (Singleton and Carter 1982; McFarlane 1988). Yugoslavia was estimated to have suffered 7,2 times higher damages than the United States and 1,4 times more than the United Kingdom (Savezni Zavod za Statistiku 1989: 192). The country welcomed the liberation in a state of underdevelopment, poverty and ruins. The centralized management of the economy therefore sprung up not only from the Soviet example but also out of necessity. At the beginning Yugoslavia also received valuable aid by a UN relief agency which assisted the country in getting the economy back on its feet (Singleton and Carter 1982).

During the administrative socialism phase, the federal state took over all economic matters. Different (Soviet)-type of measures were applied, such as nationalization, expropriation, colonization and the agricultural reform (the collectivization), to guarantee the supremacy of the state property over other kinds of property. During this period rapid economic recovery was accomplished: "Already in 1947 the national income and the industrial production were 21% higher than in 1939" (Marsenić 1984: 126 [my translation]). Despite good results, a shift in ideology occurred because of the breakdown in relations between Yugoslavia and the Soviet Union. Workers' self-management was the Yugoslav answer to the dilemmas of positioning between the East and the West, central planning and market relations. Those were times when Yugoslavia also literally opened up to the West and accepted the economic support coming from the United States as well as other allies in the form of aid or loans. In 1952 Yugoslavia and the United States signed an Agreement for Economic Cooperation, which was "the first economic agreement between the United States and a socialist country signed after the Second World War"

(Dokmanović 2009: 91 [my translation]). The total foreign assistance given to Yugoslavia in the period between 1945-1966 amounted to 1.650,1 million dollars (Savezni Zavod za Statistiku 1989: 147).

With the introduction of self-management, the federation ceased to be involved in the planning of every aspect of the economy. Some competences regarding planning and organization of the economic activity were transferred onto the economic subjects. On a macro level though, the state was still highly involved in the economic life through price regulation, foreign trade- and foreign exchange controls, allocation of investments, protectionist policies in the form of subsidies and bailouts etc. (Singleton and Carter 1982: 128-32). The economic situation in Yugoslavia was doing better than ever before: in the period between 1953 and 1964 the average annual growth rate of the Yugoslav social product was 8,6%, which was among the highest in the world at that time (Maksimović 1984: 105). However, “behind the impressive façade of statistics” (Singleton and Carter 1982: 132), crisis was looming. The rapid growth rate occurred at the expense of the current account of the balance of payments, whereas the centrally managed investment decisions caused a stir among the republics (McFarlane 1988: 121). It was as much a time of conflict of interests as conflict of ideas. The centralists, with a base in Belgrade, and the liberals, mainly from Slovenia, disagreed on the level of state involvement in the economic development (Woodward 1995: 244-5). The 1965 economic reform ended that debate in favor of greater economic liberalization.

Still, it should not be misinterpreted that regular market relations were set up. “One of the main goals of the reform in the period between 1964 and 1968 was strengthening the economic base of self-management [...] In that period we were confronted with strong resistance against the self-management, which came from the dogmatic-centralist tendencies. Later, between the 9th and 10th Congress (in 1969 and 1974), we had to reinforce the fight against the activity of the anarchic-liberal and nationalistic forces and concepts.” (Tito 1982: 163 [my translation]). A new category of so called “social property” was introduced. It was different from both state- and private property and was supposed to regulate the new relations established by the self-management. It was defined as a “system of relations between people, and not between people and objects, in which the property does not represent an exclusive right of any subject in society, nor of the state, nor of the workers’ collectives, nor of the individual worker. It is collective

property of all who work, and in that sense also of every individual worker in the framework of the right to work, along with all inalienable rights derived from the right to work” (Kardelj 1980: 490 [my translation]). Thus defined, property rights were at the same time everybody’s and nobody’s: they were personal to the extent the collective allowed it.

Such a hybrid plan-market self-managing economy and the constant redefinition of relations between the enterprises, republics and the federation became sources of ongoing controversy. “From 1958 to 1969, there were around 2000 workers’ strikes, especially in the most developed republics and Vojvodina” (Bilandžić 1985: 401 [my translation]). If the workers have gained all the decision-making power, then who could they be protesting against? Society and the state were supposed to be governed by the working people and the right to strike⁴⁷ was deemed incompatible with the socialist ideology and the newly established social relations. Strike was only *de facto* tolerated under the term of “interruption of work” (Kardelj 1980: 424 [my translation]). “Research has shown that one of the reasons the workers were striking was the request for bigger influence in management, in line with the principles of self-management. The representation and influence of the workers in worker’ councils, management boards, in the League of Communists, the trade union leadership and the assemblies of the socio-political communities has significantly been decreasing. In the management bodies of the centers of financial power, there weren’t any workers at all.” (Bilandžić 1985: 402 [my translation]). Bilandžić further argues that one of the reasons behind the failure of the 1965 economic reform was that “the management structures at all levels, from the central state administration to the management of the enterprises, had for over 20 years been functioning in more or less administrative conditions and were not competent enough to function under the new market terms” (Bilandžić 1985: 317). The managers used the newly obtained power to increase their own privileges and income. This was possible also in less successful enterprises, secured by the official egalitarian policy of the socialist regime. The socially owned banks, which replaced the former state investment funds, used their monopolized position to extract as much income as possible from the economic subjects and ensure their own “profit [...] by giving out credits with 20, 30 up to 50% interest” (Bilandžić 1985: 395 [my translation]).

Such implementation of the self-management concept triggered dissatisfaction, which manifested along class- and (national) identity cleavage lines. The reaction of the political leadership to the

1968 student revolt and the nationalist dissent was to transfer decision-making power to local actors by simultaneously shifting away from the liberal economic strategy. The fragmentation of all entities into ‘organizations of associated labor’⁴⁸ which had to arrange all decisions through a complex system of mutual bargaining and agreements convoluted the specific Yugoslav regulated market relations to the extreme. After the liberal forces within the League of Communists had been isolated, the new national communist elites focused on extensive development in their regions. In the 1970s the Yugoslavs were building forty thousand new industrial capacities (Simčič 2008: 412), and there was a large amount of duplication of investments in different republics and provinces (Lydall 1989: 53). Thus, competition over limited resources inevitably translated into elite conflict (Woodward 1995: 258). Woodward (1995) makes an important point about the role of *international conditions*, which has often been neglected in the analysis of Yugoslav political economy. She shows how Western recession of that period undercut earlier export-oriented liberalization of the Yugoslav economy and affected its production policies. New orientation towards primary industrial production which was criticized for its economically adverse effects (Lydall 1989) has in fact been a reaction to the recession-related closing of western markets (Woodward 1995: 251). Yugoslavia’s dependence on foreign capital for financing its investments and public expenditure increased its vulnerability. Its inability to service the foreign debt inflamed the quarrels among the federal units. In 1988 Yugoslavia asked for another IMF loan, and the last federal government of Ante Marković attempted to rescue the economy by implementation of liberalization and stabilization reforms (Woodward 1995: 256). Meanwhile Yugoslavia was politically lost as particularistic tendencies escalated into conflict.

2.3.3 Regional Discrepancies

The level of development of the different federal units was different even before these differences became a source of conflicts. The discrepancies among the different regions in the Kingdom of Yugoslavia have already been mentioned: Slovenia, Croatia and parts of Serbia (Vojvodina) inherited some levels of industrial development from the times they were under the Austro-Hungarian rule, while Montenegro, Bosnia and Herzegovina, Kosovo and Macedonia remained highly dependent on agriculture. These ratios in economic structure and development were not altered. The starting position after the Second World War was more or less similar for

the different parts, taking the enormous war damages into consideration. The newly founded federation concentrated on industrialization as a concept for rapid recovery and development. But in 1947 certain regions or republics were already lagging behind. The First Five Year Plan (1947-1951) identified Bosnia and Herzegovina, Montenegro and Macedonia as underdeveloped (Blaževski 2003: 22). For the following period as such were identified: Montenegro, Macedonia and Kosovo (1957-1961), Montenegro, Macedonia, Kosovo, parts of Serbia, parts of Bosnia and Herzegovina, and parts of Croatia (1961-1965), and finally, Bosnia and Herzegovina, Montenegro, Macedonia and Kosovo (1966-1990) (Ibid.).

Considering the egalitarian logic of socialism, the federal units were supposed to benefit from the post-war industrialization and the economic progress as equally as possible. Instead, over time, the development gap increased. This happened as a result of Yugoslav macroeconomic policies, such as the price policy, which disfavored the primary industry and agriculture, and export stimulation policies, which prioritized products with higher level of finish (Blaževski 2003: 32-3). In this sense, the republics and the regions which had a higher share of agricultural production or relied on primary industry stagnated. This was the nature of the federal policy from the beginning, and was justified by historical and geographical factors. After the war, the federation chose to promote industrial development in those areas that already had experience with pre-war industries (Singleton and Carter 1982: 209). Additionally, infrastructural investment and labor-intensive and offshore processing industries were located in the areas that had geographical closeness and better communication links to western markets, whereas heavy, capital-intensive industry was located in the more isolated Bosnia, Serbia, Kosovo and Macedonia (Woodward 1995: 284-5). Over time the republics and provinces were granted more economic autonomy, while the less developed struggled to catch up with the rest of the country. While the North had the advantage of early industrialization and was investing in technological modernization, the South was completing its unfinished industrialization. During the '70s, both Serbian and Macedonian planners focused on massive capital investments in heavy industry; however, by the time they finished their projects, Eastern markets had collapsed and global price structure had changed (Woodward 1995: 291).

The federation kept a solidarity policy. One of the most important instruments was the (solidarity) Fund of the Federation, created in 1954 as a General Investment Fund and renamed

after 1965 into a Federal Fund for the Crediting of Faster Development in Economically Underdeveloped Republics and Provinces (Singleton and Carter 1982: 222-3), which offered favorable loans. Another important instrument was the nonrefundable transfer of funds from the federal to the national budgets in order to finance the public services and thus prevent a fall in the living standard (Ibid.: 225). These efforts were unsuccessful in narrowing the development gap, although their absence after Yugoslavia's break-up would considerably affect their end-users. Since 1952 the social product per capita of Slovenia has been three times bigger than that of Macedonia. In 1987, the social product per capita was 36.076 dinars in Slovenia, 22.875 in Croatia, 21.138 in Vojvodina, 17.775 in Serbia (without the provinces), 13.364 in Montenegro, 12.260 in Bosnia and Herzegovina, 11.908 in Macedonia, and 4.839 in Kosovo (Savezni Zavod za Statistiku 1989: 105). Moreover, the solidarity policy created rifts among the federal units. Slovenes and Croats continuously complained about the redistribution in favor of the underdeveloped areas. As Serbia was considered a more developed republic, it was also ineligible for aid, despite its worsening indicators, which is why it focused on regaining control over its provinces (Woodward 1995: 358). Jović summarizes the essence of economic sentiment of the last years of Yugoslav existence: "Soon, everyone in Yugoslavia was claiming to be disadvantaged and that somebody else was privileged" (Jović 2009: 17).

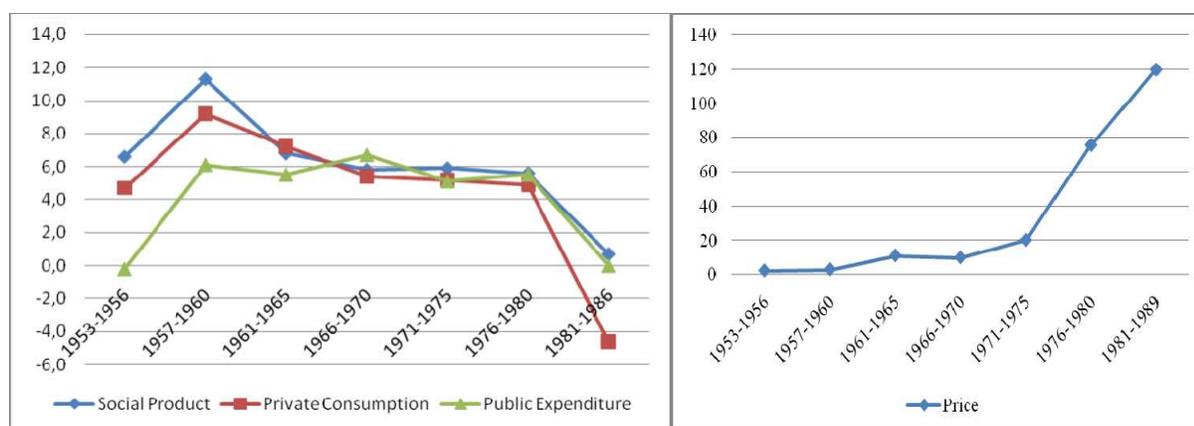
2.3.4 The Yugoslav Social Policy Regime

One of the guiding post-war principles was to overcome backwardness through economic growth and social development. Public and social policies played an important part in Yugoslav policy-making.

Since the early '50s significant results in raising living standards were accomplished. The success in economic performance was accompanied with corresponding answers in the social sphere. Private consumption and public expenditure⁴⁹ as a share of the national income increased. It was then when the first major shift of the population from agricultural to industrial production took place and employment grew. Good economic results contributed to realization of the priority settings included in the 1957-1961 plan to increase the level of private consumption. At the same time, the structure of the private consumption was changing - the proportion of food and other products necessary for covering the minimum basic needs was

decreasing. In parallel, public expenditure grew and investments in education, healthcare, housing and social protection expanded. Public spending remained stable also during the years of economic recession. Next to the conviction that improved economic performance created conditions for social development, the communists believed that social modernization contributed to economic growth. In reality however the country was facing economic stagnation. The strategic shift away from consumerism and closer to capital investment during the 1970s failed to improve the economic base. Although private consumption and public expenditure were kept relatively high, the living standard was dropping, as it was eaten up by inflation.

Figure 1 Average annual growth rates of selected given development indicators, 1948-1989



Source: Savezni Zavod za Statistiku 1983: 16-7; Savezni Zavod za Statistiku 1990: 98, 745.

2.3.4.1 Definitions

Socialism placed a high value on social policy, albeit determining its role in society has not been a straightforward task. Lakićević (1978) has registered some of the most influential views on social policy in Yugoslavia. These views vary from tighter to broader interpretations of the notion and scope of social policy: from an instrument for neutralizing the negative consequences of any kind of existential insecurity in the framework of existing economic possibilities (Eugen Pusić) to a policy for social development (Marko Mladenović, Borislav Šefer, Edit Vajs). The mainstream view (Anton Križišnik, Mihailo Stupar, Dušan Lakicević) was beyond a minimalist version, namely that the goal of social policy is to improve the living and working conditions of individuals and social groups, through provision of social protection against social risks and through policies for maintenance and advancement of the living standard.

2.3.4.2 Social Policy in Party Documents

Political and legal documents provided no explicit definition, but determined the main social policy goals and tasks, as well as steered priority setting and development trends. Interestingly, the dominant post-war view of the Yugoslav communists was essentially liberal – they believed that social problems would automatically disappear once the country economically recovers. In the mid '50s social policy started complementing the state's economic development strategy.

Although the rapid post-war industrialization saved the country from backwardness, it also started generating new social problems. Once the practice started showing that the broadening of the economic base required corresponding social investments, such as housing, healthcare, educational facilities etc., social policy became a conscious activity of the state. The Program of the League of Communists adopted at the 7th Congress in 1958 paid special attention to the social policy, defined its scope and tasks in a comprehensive manner, with the intention to coordinate it with other policy fields, primarily the economic policy (*Sojuz na Komunistite na Jugoslavija* 1984). The 1963⁵⁰ Constitution included economic and social security, solidarity and equality into its basic principles and further guaranteed a number of economic and social rights. The last Yugoslav Constitution of 1974⁵¹ guaranteed the same principles and rights, and only adopted a different approach towards their practical realization. In the meantime, economic stagnation was holding back the effective coordination between material opportunities and social needs. The Party blamed these failures on the inability to strengthen the overall material base due to slow implementation of self-management in the form of associated labor, primarily the “slow elimination of etatist-bureaucratic and group ownership influences, decision-making and monopolies, particularly in organizations of associated labor in the public services, in the services provided by self-management interest communities⁵² and in corresponding administrative bodies“ (*League of Communists of Yugoslavia* 1978: 87). Given the growing discrepancy between economic conditions and social benefits, “many of the prescribed rights were not realized in practice“, and so “social policy was given the role of delaying the social consequences of the ineffective economic system and the failed development policy” (*Šefer* 1991: 2 [my translation]). Furthermore, such a constellation created possibilities for various kinds of speculations to appear.

2.3.4.3 *Social Inequalities*

Šefer (1974) points out that socio-economic differences existed despite them being ignored in the official statistics. Systematic data collection and research, which would help identify the wealth distribution in Yugoslavia, was lacking. The egalitarian socialist philosophy implied equal distribution of wealth. Some information about social inequality could nevertheless be obtained from expert analyses and from the programmatic documents of the Party. Inequality was partly due to structural differences. Most evident were the differences based on (un)employment status, household size, income level (qualifications and sectors: agriculture vs. industry, private vs. public sector), as well as uneven regional development. The Gini⁵³ coefficient measuring the personal income inequality varied between 0,16 and 0,17, and this was a socially accepted level of inequality (Šefer 1974: 80).

Another cause of social stratification was various kinds of systemic abuses, such as speculations, appropriation of social property, corruption, tax evasion. Bilandžić (1985) identified that in the mid-60s a process of social differentiation based on wealth had emerged, and elaborated that those structures having monopoly of information and in charge of the economy were in a more privileged position which they could use to their advantage. In every phase of political and socio-economic development in Yugoslavia, there were certain structures which could be characterized as more equal than the rest: in the period of administrative socialism/state centralism such were the bureaucratic structures; later, the self-management concept strengthened the managing structures of the economic subjects, especially the banks, and usually all of these overlapped with or were somehow correlated with the ruling political structures. The League of Communists, mainly upon Tito's initiative, tried to contain such phenomena. After its 9th Congress (1969), the Party made the fight against speculations, illegal actions, appropriation of privileges and material goods outside of invested labor, and against all other conditions creating unjustified social inequalities part of its agenda (Ristović and Prica 1978).

The economic crisis of the '70s sparked a lively debate on the position and function of social policies. Main points of criticism were the lack of criteria for policy-making, lack of direction in priority setting, weak coordination with other policy areas, and problematic and contradictory implementation (cf. Šefer 1974; Marsenić 1984). “[While] during the (1965) reform, inadequate

measures for reduction of public expenditure were undertaken [...] now [*during the 70ties*] there is non-selective growth of all types of public expenditure” (Šefer 1974: 70 [my translation]). Stropnik (1991) criticized that social policy has long been regarded as inherent to socialist development policies. In time, it developed ‘a life of its own’ until a consensus was forged regarding the importance of integrating economic and social policy areas. Still, Stropnik warned against the chronic tendency to apply *ad hoc* measures and called for “development of concrete criteria for evaluation of certain social programs” and learning from the historical experiences of countries whose social policy was built in market conditions (Stropnik 1991: 105 [my translation]). Similarly, Ajdinski (1989) found that social policy has been underestimated and perceived primarily as a burdensome expense, while its development component has been neglected. For instance, he proposed the use of activation measures during times of economic recession as a tool for improvement of economic performance (Ajdinski 1989: 55). Such arguments have obviously been inspired by the debates in western market economies; however, with Yugoslavia already falling apart neither of these considerations could find a way into reality.

The following lines focus on the Yugoslav social policy system, its main characteristics and patterns of development. This is done through inspection of the two main components of the system: social insurance and social protection.

2.3.4.4 Social Insurance

The social insurance system encompassed several branches, such as pension insurance, health insurance, disability insurance, social insurance in case of temporary unemployment, social insurance of families (child benefit) and social insurance of special categories of insured persons. This social-insurance system was developed basically from scratch, except for the effort to provide continuity in the realization of rights obtained within the previous system. This was not much, considering the fact that Yugoslavia had inherited a poorly developed social insurance system that had very low coverage and was also financially unstable (Stupar 1963). The new system which emerged after 1945 was not created once and for all, but underwent several phases of development. The changes referred to the organization and financing of the system, provided coverage and prescribed rights.

These phases followed the logic of the political and socio-economic development of Yugoslavia. Overall, having its organizational and financial structure in mind, the Yugoslav welfare model was not a typically communist one. Except for the first period of administrative centralism, when the federal budget was the main source of financing public spending, including social benefits, following the introduction of the self-management, the system of social insurance was mainly financed from personal income contributions. In an organizational sense, the system was first managed by the state administration, then by social insurance institutions, and finally by the administration of the self-management interest communities. The system was based on the principles of ‘solidarity and mutuality’ (Stupar 1963; Lakićević 1978; Gojković 1985; Milosavljević, 1988), not only among the insured persons, but also the wider society. This principle was expressed through the financing of the system and through the number and categories of people and risks covered. The system’s financing was according to the pay-as-you-go method and relied on personal income contributions and various additional sources of financing. Additionally, in the course of the years, the number of people and categories covered and the number of rights acquired under various types of social insurance increased. Thus, although the terminology was not used to describe the system in Yugoslavia, it was *de facto* a mixed one – combined between typical Bismarckian and universal system.

2.3.4.4.1 Institutional Organization and Financing

Between 1946⁵⁴ and 1952, the system was under a direct fiscal obligation of the state. Social insurance was centrally operated by the State Institute for Social Insurance (*Državen Zavod*) and its branch offices on the territory of the whole federation. This Institute was under the authority of the Minister of Labor. A special contribution was collected for financing purposes. But in a relatively short time, the special contribution was abolished⁵⁵ and a universal financing covered by the federal budget for workers and civil servants was created. The State Institute and its branch offices, responsible for the implementation of the social insurance, were also abolished and their activity was added to the other regular activities of the administrative state organs. This type of organization was deficient in practice, as it was unable to secure appropriate functioning of the system (Stupar 1963: 282). This was not the only reason a shift in the system took place. In 1952, there was a change in direction and priority was placed on the implementation of self-management.

In 1952⁵⁶ the management of the social insurance was transferred from the state administrative organs to special Institutes for Social Insurance (*Zavodi*), which were founded for that purpose at the level of districts, cities, republics, autonomous provinces and autonomous areas. The institutes were established as independent institutions and had the right to manage the funds for social insurance. Although the institutes were in charge of managing their own social insurance funds in a decentralized manner, the collection and distribution of funds were still done centrally. There was a single contribution rate⁵⁷ established on the federal level, which was collected in the federal fund and then distributed to the institutes at the level of the republics by the Ministry of Finance of FPRY.

Starting from 1962⁵⁸ and especially after the constitutional changes in 1963, further changes in the system of social insurance took effect. The self-management principle came to light through the Communities of Social Insurance (*Zaednici*), which were founded as organizations of the insured persons at the level of local municipalities, republics and the federation. The Communities were in charge of establishing Institutes for Social Insurance. These Institutes administered the social insurance and managed the finances collected in the funds for social insurance. The single contribution rate was abandoned and separate contributions were collected for the different types of social insurance. The federation set the highest limit of the contributions and within that scope the Communities determined the separate contribution rates. Health insurance was implemented at municipal level and accordingly its contributions were collected in the health insurance funds of the respective institutes for social insurance. The maximum limit of the health insurance contribution rate was set on the level of the republic. The contributions for pension and disability insurance were collected by the pension and disability insurance fund of the republic. Implementation of pension rights was carried out at municipal level as authorized by the management board of the institute of the republic.

The last phase of the Yugoslav self-managed socialism commencing after 1971 brought about qualitative changes in the organization of the social insurance system. First of all, the federation transferred both legislative and executive competences in this sphere to the republics and autonomous provinces, except for a limited number of areas or categories which the system privileged or were considered of wider public interest, such as health-, pension- and disability insurance of members of the armed forces and war veterans, the obligation to keep evidence of

the insured and the holders of social rights and benefits, and the protection from epidemic diseases. The federation also prescribed the basic rights⁵⁹ from pension and disability insurance, which the republics and autonomous provinces advanced besides organizing their implementation. Basically, the pension and disability insurance was the single area within the social insurance system which was least decentralized.

The Self-management Interest Communities were another attribute of the reformed system. As in all other areas, these communities were established based on mutual agreements of the insured working people, the social beneficiaries and the working people providing the social services. At the highest form of decentralization, the self-management interest communities were established predominantly at the local level, where the providers and recipients of the social service mutually arranged and developed the social service, as well as took care of securing its material base by collecting and managing the contributions. Previously existing institutes and funds were abolished and the social insurance was carried out by the administration of the self-management interest community. More than one self-management interest community could be associated with a regional community at the level of the republic/autonomous provinces, when the local level was not sufficient or for the purpose of organizing and delivering social services of wider importance. Only for the pension and disability insurance the basic form of self-management interest community was at the level of the republic/autonomous province; however, the possibility to act locally was not commonly used. Furthermore, here the community was organized as a form of associated labor of the insured working people and the beneficiaries, but not involving the working people providing the service.

The main intention of the reform was to bring decision-making power closer to the individuals, especially the working people. But in reality, correlated to what has been argued (under “*Social Policy in Party Documents*”), the implementation of this principle was formal and ordinary people had no real power over the shaping of the social insurance system. Nevertheless, a generous system of social rights and services was created over the years providing relatively extensive accessibility and inclusion. A widely dispersed and developed network was providing access to medical services, unemployment rights and benefits, old-age and disability pensions, child benefits and other services.

At the beginning all the main social risks, such as sickness, maternity, disability, old-age and death were organized in the framework of the single social insurance system. As the country progressed economically and socially, the social insurance system was broken down into different types of social insurance branches, which dealt with the specific types of risks both separately and in detail. Regarding coverage, the social insurance was initially intended only for workers and employees, and it gradually expanded to the self-employed, farmers, foreigners, family members of the insured and others. The following section describes the pension and disability insurance, the health insurance and insurance against temporary unemployment.

2.3.4.4.2 Pension and Disability Insurance

The pension and disability insurance was linked to the working age and was earnings-related. It targeted mainly workers and other employees, such as civil servants and political representatives, the self-employed, citizens of SFRY working abroad and foreigners or people without citizenship working in the SFRY. The disability insurance incorporated other categories as well: interns, trainees, people working less than half-time, persons organizing or participating at sports events. Some of these categories could also be given access to pension insurance, based on national acts of the republic (or autonomous provinces after 1971) which allowed them to make agreements with the respective self-management interest community. Farmers became part of the pension and disability insurance of SFRY as late as 1982⁶⁰, although at the level of the republics, farmers could have already been included in the system, based on previously endorsed national acts. The main rights of the insured included old-age pension, disability pension, family pension, right to material compensation in case of injury, right to training, re-training and assignment to different work-related activities. The statutory retirement age, originally 55 years of age and 35 years of insurance for men, and 50 years of age and 30 years of insurance for women, was in 1972 raised to 40 years of insurance for men and 35 years of insurance for women, regardless of the age. When this main rule was not fulfilled, the insured were granted access with 65 years of age for men and 60 years of age for women, with at least 15 years of insurance or 60 years of age (men)/55 years of age (women) with at least 20 years of insurance. Special calculation of the working age was possible for certain jobs and for specific periods spent outside of employment. A recent option was the buying out of part of the working age (Gojković 1985: 101). The amount of the pension received was earnings-related and indexed accordingly. The maximum limit of the

base for calculating the pension was determined by all the republics and autonomous provinces. The discrepancy was primarily a result of the different average personal income that could be earned in the different parts and in that sense was lowest in Macedonia and Kosovo. Croatia had the highest maximum pension base⁶¹. On the other hand, supplements were provided to people with low pension, and thus there was a *de facto* minimum pension guaranteed.

2.3.4.4.3 Health Insurance

Health insurance was universally defined and covered practically the whole population. It provided directly to the insured persons and indirectly to their family members, or to other categories of citizens with the right to healthcare. Within this framework, the categories of the insured persons were defined rather broadly and included workers and other employees, such as civil servants and political representatives, then the self-employed, farmers, people receiving old-age or disability pension, war veterans, civil victims of war, pupils, students, registered unemployed, persons in training or re-training, volunteers, people taking part in public works, recipients of social assistance, foreigners working or studying in Yugoslavia. Additional categories of insured persons could be defined by the national legislation of the republics and autonomous provinces, which was developed during the '70s. However, despite universal insurance coverage, not everyone enjoyed the same level of protection, since not all insured categories were insured against all types of risks. Therefore, towards the end of the '60s a general law⁶² endorsed a minimum level of healthcare for the population. Supplementary health insurance also existed, giving access to supplementary healthcare benefits based on a decision of the economic subject or public institution in the case of workers/employees or based on a local community decision with implications for the wider population. Healthcare was provided primarily in the form of medical services offered by a wide-spread network of medical institutions and also in the form of financial support by health-insurance institutes or the later self-management interest communities in case of temporary inability to work. Thus, health protection was guaranteed free of charge under comparable conditions across the federation. Private financing was negligible. It was foreseen for some medical services, such as dental care, voluntary vaccination, acquisition of orthopedic equipment, or accommodation in rehabilitation centers.

2.3.4.4.4 Unemployment Insurance

The Yugoslav welfare system included insurance against the risk of unemployment. Officially, the term 'unemployment' was not in use, and instead, people who were looking for work were registered as 'job seekers'. This was linked to the conviction that unemployment should be a temporary condition. The registered unemployed were provided with a number of rights and benefits, such as the right to employment, material compensation, healthcare, child benefits, the right to count the time spent outside of employment as part of the working age and other. Furthermore, access to these rights and benefits was granted to a variety of categories out of work, both those who have already been employed or have worked, as well as those who have been working abroad, and those who were looking for work for the first time. Unlike the first few decades, when the employment rate was on the rise, the last two decades (1970s and 1980s) were characterized by a rise in unemployment. Unemployment figures reflected the regional patterns. For instance, in 1989 the unemployment rate, calculated as the relation between the registered job seekers and the labor force (total number of employed and unemployed persons), was: Kosovo: 36,3%; Macedonia: 29,1%; Montenegro: 21,6%; Bosnia and Herzegovina: 20,3%; Serbia (without the provinces): 15,6%; Vojvodina: 13,6%; Croatia: 7,95%; and Slovenia: 3,2% (Savezni Zavod za Statistiku 1990: 408-9). Interestingly, horizontal labor mobility in the federation was not common (Singleton and Carter 1982: 188). Mobility beyond the borders of Yugoslavia helped relieve unemployment, however, during the years of global economic recession some of the *gastarbeitsers* had to return, and their exclusion in the official statistics added to the problem (Woodward 1995: 199-200).

That was the time when the unemployment insurance became a national competence of the republics and autonomous provinces, which seriously affected the rights and benefits provided by this type of insurance, especially the right to material compensation. Milosavljević (1988: 172-7) has summarized the different national provisions. The cases when an unemployed person might be granted the right to material compensation were set rather restrictively, with the exception of Slovenia. Similar argumentation could be applied to the amount and duration of the material compensation. The amount received put the unemployed across Yugoslavia in an unequal position, as it was connected to the previously earned average personal income as well as the possibilities of the self-management interest community. Furthermore, the calculation of

this amount was comparatively most favorable in Slovenia. The duration of the material compensation was generally shorter in some republics (Bosnia and Herzegovina and Macedonia) and some cases (Croatia, Macedonia, Serbia, Kosovo) was partly conditioned by means-testing. Apart from the individual material compensation, some of the republics (Slovenia, Croatia, Montenegro and Serbia, including Vojvodina) foresaw an additional right to family benefits for the family of the unemployed person, which were means-tested. Besides the material compensation, the access to healthcare was relatively equally available, since the health insurance covered also the unemployed. In principle, the pension and disability insurance did not cover the unemployed, except for the period when the social insurance became a competence of the republics and autonomous provinces, and when in special cases, according to the acts valid in Bosnia and Herzegovina, Croatia, Macedonia and Montenegro, workers out of employment were insured against the risk of old-age and disability. In Slovenia there was special attention paid to the development of active employment measures, such as training and re-training, which were offered not only to the unemployed but also the employed seeking counseling or other employment.

In principle, worsening socio-economic conditions throughout the 1970s and 1980s were felt differently in different parts of Yugoslavia. The economically more viable republics/autonomous provinces were able to counterbalance the crisis more easily and the wellbeing of their population was less affected.

2.3.4.5 Social Protection

This argumentation also refers to the social protection system. The underdeveloped republics and autonomous provinces were less able to guarantee the realization of all prescribed rights and benefits. Differences occurred despite the fact that Yugoslavia's system of social protection was created to be accessible and inclusive.

2.3.4.5.1 Social Protection Services and Rights

During the war, the People's liberation committees carried out various social protection activities, especially for the most disadvantaged. After the war, the federation undertook the process of mitigating the social effects of war, such as meeting basic needs (food and housing),

special care for the disabled, families of victims of war, and children without parental care. UN humanitarian aid and other assistance were also in place. The system of social protection gradually advanced into a far-reaching and comprehensive system of social measures and institutions targeted at individuals, families, and social groups, unable to meet their basic needs and at the risk of social exclusion. In line with the egalitarian philosophy of socialism such a system was designed in order to create equal opportunities for social participation and was therefore broadly defined to provide support to different categories of disadvantaged persons or groups. The social protection acts generally identified the following beneficiaries: children, especially children without parental care, children with mental or physical disability, neglected children and children whose development had been impaired due to family circumstances; adults who were unfit to work and materially deprived, people with disabilities, people displaying socially deviant patterns of behavior and elderly persons without family care; as well as other categories of persons who were in social need due to specific circumstances like natural disasters, migration, imprisonment, rehabilitation among others (Milosavljević 1988: 237). These beneficiaries were given the rights to financial assistance, employment support, placement in a social protection institution or a family, home care, temporary subsistence in a social protection institution and rights to other social services (Milosavljević 1988: 238). Specificities of coverage among the republics and autonomous provinces came to light during the '70s. Some beneficiaries, such as the war invalids, the families of deceased partisans and of deceased war invalids, remained under special protection of the federation.

In a narrower sense, the core of the social protection system was targeted. In wider sense, beneficiaries of the system of social protection could be all the workers, their families and whole communities. Within the organizations of associated labor, directly or through their delegates, workers could foresee different forms for meeting their social wellbeing needs: organized transportation and food, organized holidays and recreation, providing special protection to women, mothers and youth, creating special conditions for disabled workers, organizing annual medical check-ups, giving support for rehabilitation, care for families of deceased workers, granting scholarships, enabling professional training and re-training etc. (Šikovski 1988). Additionally, working people and citizens living on a certain territory could organize themselves in the framework of local communities (*mesni zaednici*). While earlier the founding of local communities was voluntary, the 1974 Constitution introduced them as an obligation for the

purpose of meeting the common needs and interests of their members in the fields of housing, children's and social protection, education, culture, sports, consumer protection, environmental protection, defense. In theory, citizens organized in the local community had the possibility to either directly implement various activities in the field of social protection or to influence the policies of the self-management interest communities and the socio-political communities (the municipalities).

2.3.4.5.2 Institutional Organization and Financing

Aside from the organizations of associated labor and the local communities, which represented a higher organizational form of social protection, the core of social protection services was predominantly provided by specialized institutions and professional service. As mentioned previously, at first the federation was the main actor providing social protection for the population through the network of the federal administration. Also here, the introduction of self-management was a turning point for the social protection system. The 1958 Program of the League of Communists set the goal of building a network of social institutions and widening services for the purpose of decentralization and increased accessibility. In that sense, various specialized institutions were set up across the country. The Centers for Social Work had an especially important position within the social protection system. The first Center for Social Work was established in 1956 in the municipality of Palilula (Belgrade). In 1961 the national Assembly of SFRY adopted a Recommendation for founding 'Centers for Social Work' as independent professional service providers. The tendency was to create such centers in as many local municipalities as possible in order to bring social services as close as possible to the people. As multi-functional institutions, they fulfilled a variety of functions which could be categorized as follows: monitoring and studying the problems and the conditions in the sphere of social protection; realizing social protection rights (financial assistance and various social services); performing guardianship services; making plans and programs for the development of social protection; initiating and organizing activities of preventive character; keeping records of the beneficiaries; providing services to the self-management interest communities of social protection etc. (Petroski 1988).

Before the appearance of the self-management interest communities as a result of the 1971 reform, it was the role of the local municipalities to manage the social protection activities on their territory. The budget of the local municipality was the main source of financing of social protection services. As the development of social protection progressed, extra funds were created for financing specific purposes - mainly investment programs - which complemented the regular spending. For that purpose, special contributions were collected. During the '70s, the personal income contributions of the workers and their organizations of associated labor, as well as the self-employed and the farmers, became the main sources of financing of social protection. The budgets of the socio-political communities played a complementary role. The contributions were collected by the self-management interest communities, which managed the social protection on the territory of a certain municipality, republic or autonomous province. In most municipalities the work of the self-management interest communities was administered by the social work centers. Those municipalities which lacked sufficient resources were supported by the republic or autonomous province.

Table 2 Overview of the main changes in the Yugoslav welfare regime

Period	Regime	Administration/Financing	Coverage
1946-1951	Social Insurance	State Administration/ State Budget (special contribution, from 1950-taxation)	Employment status related
	Social Protection	State Administration/ State Budget	Targeted
1952-1970	Social Insurance -pension and disability (1957/'58) -healthcare (1954) -unemployment (1952)	Social Insurance Institutes/ mainly contributions collected in Funds*	Employment status related (towards universal healthcare)

	Social Protection	Administration of Local Municipalities/ Local Budgets	Widely targeted
1971-1990	Social Insurance -pension and disability -healthcare -unemployment	Self-management Interest Communities/ mainly contributions	Employment status related (universal healthcare)
	Social Protection	Self-management Interest Communities/ mainly contributions	Inclusive

*Until 1962 there was a single contribution rate collected in a Federal Fund.

Looking back at the development of the Yugoslav welfare model from a 45-year perspective, it can be concluded that a rather comprehensive system has been created practically from zero. There has been a tendency to make both the social insurance and social protection systems as inclusive and as accessible as possible. The decentralization of their management was thus in line with these objectives. Yugoslavia inclination towards developing a Bismarckian type of welfare state, and at the same time incorporating strong universalist affinity (mainly in healthcare). Over the years a rather generous welfare system was constructed upon the principles of solidarity and equality, aiming to alleviate unfavorable conditions resulting from certain social risks and to enable social participation.

Achieving these goals was not always feasible. There were times when the social goals were too ambitious when compared to the economic reality and either became a serious burden to the public spending or their realization was threatened. During such times it was not only difficult to meet social needs and realize all foreseen social rights, but also the principles upon which they rested were disrupted. Beneficiaries of the same social service were put in an unequal position. This occurred especially during the last decade of the federal existence when the role of the federal authorities in the field of social policy was minimized. Still, the structure of the system

was practically uniform in the different parts (republics and autonomous provinces), and it was mainly the quality of services and access to rights which differed.

The dissolution of Yugoslavia occurred in a constellation of different factors, such as weakened economy, accumulated social problems, and political failures. The formerly united parts embarked on a transitional journey taking the Yugoslav legacy as a new starting point.

3 Slovenia

The pluralization across the former SFR Yugoslavia at the onset of the nineties can be traced back to the vibrant Slovenian social and political scene of the late seventies and early eighties. Slovenia was the first of the former Yugoslav republics to organize multi-party elections in April 1990. This was the response of the Slovenian communist elite to the rise of critical civic voices, some of them emerging within the Slovenian League of Communists itself⁶³, and to the growing antagonisms among the communist elites of the different republics. When the substantive conceptual differences between the Serbian leadership's aspirations for greater centralization of Yugoslavia and the Slovenian-Croatian communists' proposal to confederalize Yugoslavia could not be reconciled, Slovenia and Croatia proceeded with unilateral proclamation of independence on 25 June 1990⁶⁴. However, unlike Croatia, Slovenia avoided being entangled in the war. After the so-called 'Ten-Day War' between the Yugoslav National Army (YNA) and Slovenia, the YNA pulled back as a result of the European Community sponsored mediation talks, but also due to the fact that Milošević's priorities lay elsewhere (Ramet 2011: 526).

Thus, the way towards independent statehood was cleared, which the national elite used for pursuing the liberal democratization project that had been initiated in the previous decade. The rapid dissociation from the former Yugoslav comrades, the elite's liberal orientation and the ethnic homogenization of the population have certainly been conducive to such a project. Simultaneously, economic transformation ensued after successfully overcoming the initial economic shock caused by the break-up, where national elites opted for coordinated market economy to complement the democratic political system. Favorable external conditions, such as the expeditious international recognition of the country and a prompt perspective of Euro-Atlantic integration, were both an impetus and a reward for the success of these processes.

3.1 Economic Development

The crisis in Slovenia following its secession from Yugoslavia was rather short lived. After the so-called Ten-Day-War (June 1991) the Yugoslav Army withdrew from Slovenia and the country resumed the path of independence. Nevertheless, the Yugoslav break-up and the developments in the other parts of the former federation left a mark on the Slovenian economy.

Up until 1993 there was a significant drop in economic activity, as measured by the negative GDP growth rates: -7,5 % (1990), -8,9% (1991) and -5,5% (1992) (EBRD 2010a). But, starting from 1993 economic growth resumed. Slovenia surpassed its 1989 GDP level in less than a decade and maintained this positive trend by 2010 by which time its economy had increased around 60 percent. In 2009 it had 24.366 USD GDP per capita.

The GDP growth was a result of gross capital formation, which had increased by 189% for the period 1991-2010, followed by imports, exports, household consumption and finally general government consumption (Hren 2011: 49).

Slovenia was able to overcome the loss of the Yugoslav market rather quickly thanks to the “export oriented production structure inherited from the previous economic system” (Kumar 2011: 68). Slovenia kept the business relations with EU countries developed already prior 1991, used the privileged relations stemming from a cooperation agreement between Yugoslavia and the EC (1980) until it signed a new one (1992), and started strategically reorienting its trade from the Yugoslav to the European markets (Kumar 2011: 69). The export-development strategy required macroeconomic stabilization and liberalization (Mrak et al. 2004: xxv). The monetary policies achieved price stabilization and accumulation of foreign exchange reserves. The improvement of the current account was reflected in revival of the economic activity. Over time the current account started registering negative values, as a result of intensified imports, which were nevertheless mainly used to boost the production (Silva-Jauregui 2004: 121).

Slovenia opted for a gradualist approach to transition, characterized by unhurried and consensual restructuring. The insider model chosen for transformation of the social capital, as well as the careful way in which it was carried out, prevented the human suffering observable in post-socialist transitions. Many social indicators, which will also be presented further in text, speak in favor of this claim. As a consequence of the gradualist approach the public sector, including the social security system, has been kept “in good condition” (Mrak et al. 2004: xxxiii). But also conversely, the fiscal policies of the 90s supported the enterprise and financial sector restructuring as well as the pension reforms, “by creating room on the expenditure side” for the associated costs (Cvikl and Gaspari 2004: 193).

Relatively high public spending was preserved in the last two decades, in parallel to a controlled level of public debt. Thus, since 1993 public spending has been continuously manifesting values slightly above 45% of the GDP (EBRD 2010a). Social spending has been an important public expenditure item. Social expenditure had stable values of 23-24% of GDP (1995-2005), after which period it fell to 22-21% of GDP (2006-2008), and reached again 24% in 2009 (Eurostat 2012).

The public debt ranged between 17,4% of GDP (1995) and 35,4% (2009)⁶⁵ (EBRD 2010a), as its lowest and highest value. The public debt did not represent a heavy financial burden, mainly as a result of gradual privatization, the presence of Slovenian economy in external markets, the solid revenue collection base and related low deficits (Cvikl and Gaspari 2004). In time, the level of the public debt worsened as a result of part of the former Yugoslav's foreign debt, which Slovenia had to take on, and investment in public infrastructure (Ibid.). Nonetheless, as a modestly indebted country, Slovenia met the "Maastricht" debt criteria and in 2007 was admitted to the Euro. On the other hand that year the external debt surpassed 100% of the GDP.

Slovenia is considered to have led "prudent fiscal policies" (OECD 2009a: 14), however, the new fiscal obligations coming from EU membership called for better management of public finances (Silva-Jauregui 2004: 192). Expenditure restraint was achieved mainly by partial indexation of public sector wages to inflation, but at the same time the improved fiscal position reflected in new liabilities (OECD 2009a: 14), which in light of the global economic crisis became especially burdensome. In particular age-related spending has been identified as an obstacle to fiscal sustainability (Holzmann 2008: 37; OECD 2009a: 14).

3.2 Changes to the Welfare System

3.2.1 Pension system

Like the other former Yugoslav states also Slovenia inherited a pension insurance system built upon the principles of intergenerational solidarity. The pension system, alongside the other sectors of the Slovenian welfare system, proved to be exceptionally resilient. Moreover, it provided support to the economic restructuring process and served as a social safety net for the

most affected. By offering early retirement, the system absorbed the workers who were laid off as a consequence of the economic transformations (OECD 2009a: 57).

The pension system acted as a welfare buffer in response to economic pressures, but also to demographic trends. While at the onset of the transition the *old-age-dependency ratio* between the persons over 65 years of age and the working age population was 15,5% (1990), a decade later became 19,8% (2000) and continued worsening to 23,9% (2011) (Eurostat 2012).

Demographic trends and falling activity rates produced a large number of new beneficiaries, which exacerbated the *contributor to pensioner ratio*. During the 80s there were around three insured persons to one pensioner, at the beginning of the 90s it was two insured persons to one pensioner (Stanovnik and Stropnik 1999: 8) and during the last two decades the ratio dropped to 1,65:1⁶⁶.

Such adverse demographic and labor market developments challenged the financial capacity of the pension system. Its financial viability was sustained thanks to a sound contribution base and through state intervention.

3.2.1.1 Financing

With regard to the *contribution base*, thanks to the successful prevention of contribution evasion, the pension insurance system not only preserved its functionality but also extended its performance. The strong institutional and administrative capacity of the social security institutions, the centralized system of collection of taxes and social contributions, as well as the fact that salaries could not be paid unless social security contributions have been settled, ensured a solid contribution base (Stanovnik 2004: 316; OECD 2009b: 137). Additionally, the pension contribution rate was raised from 22,55% of gross wage (1989) to 31% (1995); however the subsequent year (1996) it was again lowered to 24,35% (Majcen and Verbič 2009: 75) and has remained at this value since (European Commission 2012b). That was the first year that the Slovenian Pension and Disability Insurance Institute (SPDII) experienced a deficit, which has been covered by additional transfers from the central government since. Such transfers existed also prior to 1996, for the safeguarding of pensions to farmers, policemen, customs officers and World War II veterans (Majcen and Verbič 2009: 75). Considering the sound economic situation and the low levels of public debt in Slovenia during the 90s, the Pension and Disability Insurance

Institute's deficit did not represent a serious financial load. Nevertheless, it became a driver for reform, which was undertaken in 1999.

Contributions made up around two-thirds of the total *revenues* of the SPDII even after the reform (ZPIZ 2010: 39). There have been some minor fluctuations in the share of contributions in the revenues of the Institute by a few percent. Thus, around 30% of SPDII's budget is then covered by state transfers, where most of the resources come from the central state budget and the rest from other public finance institutions, like the Ministry of Labor and Social Affairs, the Health Insurance Institute and the Employment Service.

On average, *expenditure* on pensions has been 10,6% of GDP (1996-2009) (Eurostat 2012). It was highest in 2002 with 11,3% of GDP, while its lowest value was 9,6% of GDP in 2008. However, in absolute terms the expenditure has been continuously growing. In 1996, Slovenia spent 1.806 million Euros on pensions, and in 2009 – 3.847 million Euros, mainly related to the increased number of beneficiaries.

Table 3 Slovenia - total pension expenditure, % of GDP (1996-2010)

Year.	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
	10,8	10,8	10,8	10,9	11	11,1	11,3	10,7	10,5	10,3	10,3	9,7	9,6	10,9	11,3

Source: Eurostat 2012.

3.2.1.2 Coverage

Pension coverage in Slovenia is broadly defined and applies to *all employees, self-employed persons and farmers* and some other smaller categories, such as apprentices, sportsmen, the unemployed, prisoners and other special insurance cases⁶⁷. Self-employed persons and farmers may be exempt from the compulsory insurance in case when their income is lower than half of the minimum salary in the period of the last six months. Voluntary insurance is an option for certain categories which otherwise do not qualify for compulsory insurance, because their employment contract has been terminated, or due to an unpaid leave of absence, pursuit of studies, training, military service, part-time employment, disability, child-care etc. This possibility is reserved solely for Slovenian nationals. This voluntary insurance should be

distinguished from the voluntary supplementary insurance, regulated by the same act and introducing occupational pension schemes.

Aside the regular insurance, there are specific cases which intervene in the pension qualifying period as a broader category than the insurance period. Such are *specific periods outside employment* (including extended insurance), *purchase of missing insurance periods* and *privileged insurance*. Some specific periods outside employment can be added to the insurance period, including also cases of non-contributory periods. Extended insurance enables continuity of insurance coverage in some cases of temporary cessation of the employment, provided that contributions have been paid. There are possibilities for: purchase of insurance periods guaranteed to redundant workers, purchase of a more favorable benefit assessment when the insured person has already fulfilled the requirements for pension, or benefit assessment without reduction because the person has retired prior to the completion of full pensionable age, and purchase of qualifying conditions. In the last case, the additional qualifying period that can be taken into consideration, provided contributions have been paid, consists of years of completed undergraduate or postgraduate studies, time spent in military service, in basic training for ancillary police units, or seeking employment. Finally, the new act discontinued accelerated calculation of insurance periods, however privileged insurance has remained for certain professions (police, judiciary, war veterans, war invalids, victims of war) allowing retirement at a lower age and with a shorter qualifying period.

The 1999 pension reform changed the *eligibility criteria*: the retirement age was gradually raised to 63/61 for men/women cumulatively with at least 20 years of insurance, or 65/63 years of age (man/woman) with at least 15 years of insurance, and finally 40/38 years of insurance (man/woman) with 58 years of age. The transitional period for these changes was envisaged to expire in 2009 for men and 2023 for women. Despite the longer transitional period for women, the gender gap has been considerably narrowed down, compared to the legislation inherited from Yugoslavia, or the 1992 reform (Stanovnik 2004: 322). Following the 1999 reform early retirement as a provision was discontinued and disincentives for retirement before the full pensionable age were provided, although some categories of insured persons can still be awarded old-age pension without reduction before reaching the full pensionable age, such as persons with

sufficient years of service, persons with disability, persons laid off because of firm bankruptcy and long-term unemployed (Ibid.; OECD 2009b: 131).

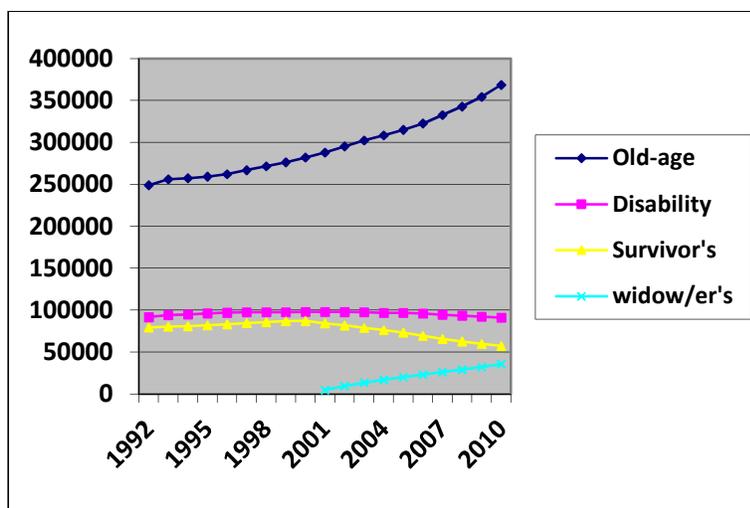
Despite the tightened eligibility criteria, given the various stipulations mentioned before which facilitate access, coverage is practically 100 percent. For instance, in 2002 the number of persons aged 65+ in the Slovenian population was 288.981 and the number of old-age pension recipients was 287.902; in 2008 the number of persons aged 65+ increased to 334.029 and coverage by old-age pension included 342.786 beneficiaries (Statistical Office of the Republic of Slovenia 2008: 22; Statistical Office of the Republic of Slovenia 2009: 14; ZPIZ 2010: 13).

3.2.1.3 Benefits

There are five main types of pension benefits: *old-age pension*, *disability pension*, *widow/widower's pension*, *survivor's pension* and *partial pension*. Other benefits include various *rights under the disability insurance*, *supplementary allowances* and *other rights*. Specific pension benefits available under specific regulations are the *state pension*, *farmer's pension*, *military pension*, *part of the military widow/er's pension* and *advance pension payment* (ZPIZ 2010: 12).

Figure 2 Slovenia - main type of pension beneficiaries (1992-2010) demonstrates an uninterrupted upward trend of the old-age pension beneficiaries. Despite the reforms, the reasons for the growth rate are found in the various options allowing early retirement (ZPIZ 2010: 14). Moreover, early retirement penalties for women enter into effect in 2014 (OECD 2009a: 60). In contrast, the 1999 reform halted the mounting trend of disability pension beneficiaries, and the same goes for the recipients of various benefits under the disability insurance. A changed definition of disability contributed to altered assessment of cash benefits for disabled workers (ZPIZ 2005: 20; ZPIZ 2010: 22).

Figure 2 Slovenia - main type of pension beneficiaries (1992-2010)



Source: ZPIZ 2005: 13 (for the data between 1992-2000), ZPIZ 2010: 13 (for the data between 2001-2010).

The number of pension benefit recipients under specific regulations has decreased over the couple of decades. In particular the number of farmer's pension beneficiaries shrank from 23.526 recipients (1992) to 1.714 (2010); then the number of military pensioners contracted from 4.996 (1993) to 3.394 (2010) (ZPIZ 2005: 13; ZPIZ 2010: 28). Only the figures of recipients of state pension have grown steadily and this will be discussed further in text.

On the whole, old-age pension beneficiaries hold the highest share of the aggregate sum of all pensions (both main and special). In 1992 it comprised 55%, and in 2010 – 64% of all pensions⁶⁸. When it comes to the benefit level, most of the old-age pension recipients receive average or below average pension. The average gross old-age pension in 2010 was 626,81 Euros, and 54,1% of all old-age pensioners obtained between 500 and 1.000 Euros, 29,6% between 100 and 500 Euros and 5,9% less than 100 Euros, while only 10,4% of old-age pensioners received more than 1.000 Euros (ZPIZ 2010: 19).

Military pensions have the best replacement rate compared to other pensions. Thus, in 2010 its average gross amount was 903,05 Euros, whilst other benefits were 231,93 (farmer's pension), 181,72 (state), 626,81 (old-age), 499,61 (disability), 428,14 (survivor's and widow/er's) (ZPIZ 2010: 29,18).

The *replacement rate*, i.e. share of average pension benefit in average net salary, has been decreasing. Between 1992 and 2009 it fell from around 70% to 61% (Kolarič et al. 2011: 294).

As a result, the income position of pensioners has been gradually deteriorating, putting the pensioners at a comparatively higher risk of poverty than the total population (Stanovnik and Turk 2010: 8).

Such a shift resulted from an altered *calculation of benefits*. The 1999 act gradually widened the calculation period from 10 best consecutive years of service to best 18 consecutive years of service, contracted the benefit to 35% (men) and 38% (women) of the pension base for the first 15 years of service with accrual rates of 1,5% for each additional year irrespective of gender, instead of the previously 35% (men) and 40% (women) with accrual rates of 2% (men) and 3% and 2% (women), and reduced the benefit to 72,5% of the pension base for the case of a full pension qualifying period, as opposed to the 85% under the 1992 act (Stanovnik 2004: 323; OECD 2009b: 131; Majcen and Verbič 2009: 77). The pension indexation according to the growth of net wages was generally retained, in parallel to the introduction of a downward adjustment of pensions for the existing pensioners in order to balance their benefits to the ones awarded to new pensioners who would retire under the new acts. These provisions aimed at preserving the principle of solidarity of the system, although there are those who argue that “this adjustment does not ensure intergenerational equity, as lifetime income is less reduced for older generations than for younger generations [and] as replacement rates are likely to be further reduced in order to limit the increase of pension payments (or contribution rates would have to be raised accordingly), [...which] would burden younger generations more than older generations” (OECD 2009a: 60).

The solidarity element of the reform comes to the fore through the definition of the *minimum and maximum pension benefit*. The minimum pension base is nominally set, but effectively lies at around 64% of the national net wage (Stanovnik 2004: 324; Majcen and Verbič 2009: 78), and the guaranteed minimum pension is 35% of the minimum pension rating base. The maximum pension base cannot be over four times higher than the minimum pension base. Thus, the ratio between two pensions has been capped at 4:1, a narrower spread than the previous ratio of 4,8:1 (Majcen and Verbič 2009: 78; OECD 2009b: 132). An additional redistributive element of the system resides in the fact that although the value of the pension that can be received is capped, this is not the case for the wage on which social security contributions are paid (Ibid.).

Another important innovation of the 1999 reform was the introduction of a *state pension*, which can be awarded to persons aged 65+ who are not entitled to a pension from a public scheme and have low income, but have resided in Slovenia at least 30 years between the age of 15 and 65. The state pension is set at 33,3% of the minimum pension rating base. In this respect, the state pension has an effect of a social assistance benefit (Stanovnik 2004: 326; Kolarič et al. 2011: 293). Also some other benefits of the Slovenian pension system are quasi-social assistance, as they are means-tested and paid to pensioners in need, such as for instance the supplementary allowance (Kolarič et al. 2011: 293; OECD 2011: 298).

3.2.1.4 Structure

Slovenia has retained a public pension system on the principles of intergenerational solidarity. The explanations given above refer to the *public mandatory pension scheme*. Following the 1999 reform, a second pillar was introduced in the form of *supplementary pension insurance*. Albeit, it is worth mentioning that “strictly speaking, the second pillar was introduced in the 1992 PDIA [act], but due to the lack of tax incentives, the number of enrolled participants did not exceed several hundred” (Stanovnik and Turk 2010: 5).

The second pillar consists of a mandatory and a voluntary supplementary pension scheme. Both schemes are defined contribution schemes, where the amount of the annuity depends on the size of the contributions, the time contributing and the return on contributions (Novak 2004: 284-5).

The *mandatory supplementary pension scheme* targets insured persons performing particularly hard work and work harmful to health and insured persons performing professional activities which cannot be successfully performed after attaining a certain age. In the previous system these employees were entitled to calculation of accelerated insurance periods and the lowering of their age-limit for old-age pension eligibility, which was in principle discontinued after 2000 (Novak 2004: 284). In 2004 also public employees were included in the mandatory supplementary scheme converting the wage increase for the previous year into second pillar premia (Stanovnik and Turk 2010: 5-6). The funds for the two groups of insured persons are collected in two separate pension funds: SODPZ (Sklad obaveznega dodatnega pokojninskega zavarovanja) – for the supplementary insurance in certain professions, and ZVPSJU (Zaprtni vzajemni pokojninski sklad za javne uslužbenice) – for the supplementary insurance of the civil

servants. Both funds are managed by the Capital Fund (Kapitalska Družba), a state-owned managing company. The funds of the mandatory supplementary pension insurance, compared to other second pillar funds, have had the highest number of members, but low amount of assets per member (Stanovnik and Turk 2010: 6).

The *voluntary supplementary pension scheme* is also seen as the third pillar of the Slovenian pension system (Kolarič et al. 2011: 292-3). It is available to persons who are already insured under the compulsory pension insurance or are recipients of the rights hereunder. Due to favorable tax incentives employers are highly motivated to start up a collective pension scheme (Ibid.). The schemes are managed by pension funds, pension companies or insurance companies.

By mid-2006 more than half of the active working population was participating in a supplementary scheme (Majcen and Verbič 2009: 79). The number of members under supplementary pension insurance in 2009 was 529.275 members, compared to 81.895 in 2001 (Ekart 2011: 5). Most of the supplementary insured persons are involved via the collective insurance (95%), where the civil servants play a substantial part, while the individual pension saving segment is marginal. Despite high participation rates, some of the problems that have been identified, such as irregular payment of premiums, their low amounts particularly for civil servants, and the low assets of the pension funds and companies, portray the second pillar as unable to fulfill its mission of compensating the reform-related shortfall in the public pillar (Ekart 2011: 5; OECD 2009b: 133; Stanovnik and Turk 2010: 6).

3.2.2 Healthcare system

The Slovenian healthcare system rests upon the Bismarckian social insurance principle and guarantees universal healthcare protection. The inherited highly decentralized and extensive healthcare system became burdensome for the public finances and soon after the independence (1992) important changes were introduced mainly by centralization of the system's management and diversification of its financial base.

3.2.2.1 Financing

In line with the insurance principles, *salary contributions* are the main source of financing. Other sources come from transfers from state and local budgets, transfers from other social insurance

institutions (health insurance of the unemployed paid by the Employment Agency or health insurance of pensioners paid by the Pension and Disability Insurance Fund) and others. Such is the structure of the funds managed by the Health Insurance Institute of Slovenia (HIIS). Contributions make up around 80% of the Institute's funds (Kolarič et al. 2011: 296).

During the 90s the *contribution rate* was often subject to change. Between 1992-1994 it was gradually lowered from 18,3% of gross wage to 12,7%, soon thereafter again lifted to 13,25% and since 2002 has remained unaltered with 13,45% (ZZZS 2007: 34). Employees contribute 6,36% and employers 6,56% plus additional 0,53% for the insurance against occupational diseases and injuries at work. Other categories of insured persons, like pensioners or farmers, have other contribution rates. Contributions are paid directly to the Health Insurance Institute's account, whereas a special national agency makes the collection on behalf of the HIIS (Albreht et al. 2002: 24; ZZZS 2007: 34).

During the last two decades both *revenues* and *expenditures* of the HIIS have been on the rise, the revenues mainly as a result of the improved gross domestic product and corrected contribution rate whereas the expenditures were influenced by the aging population, increasingly expensive drugs, new medical procedures and equipment, faster growth of medical personnel's salaries, the introduction of the value added tax for material expenses, and numerous additional health programs (ZZZS 2007: 41). Between 2000 and 2004 revenues and expenditures drifted apart thus creating a deficit on the HIIS account. In 2005, the state took over the entire debt of the HIIS and settled the deficit to its whole extent (ZZZS 2007: 42). The deficit reappeared in 2009 and 2010, but was reversed in 2011 due to improved market activity (ZZZS 2012: 88). At the beginning of the 3rd millennium Slovenia's Health Insurance Institute spent 1.457 million Euros on healthcare, and at the end of its first decade spent 2.346 million Euros (ZZZS 2007; ZZZS 2012).

The spending on healthcare has been increasing not only in nominal values, but also as percentage of the GDP. The total healthcare spending has been 8,2% of GDP on average. Out of this, around 6% has been public expenditure (Albreht et al. 2009: 40).

Table 4 Slovenia - total health expenditure (public and private), % of GDP (1995-2010)

Year	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
	7,46	7,64	7,76	7,82	7,8	8,26	8,58	8,62	8,64	8,34	8,36	8,28	7,84	8,32	9,22	8,98

Source: World Health Organization Regional Office for Europe 2012 *Estimates produced by WHO, including both nationally reported data and estimates from other international organizations like IMF, WB, UN and OECD.

Most of the expenditure goes to healthcare activities, drugs and medical equipment, cash benefits, HIIS's operation, and payments based on social security agreements. The *spending structure* has stayed essentially unchanged with around 70% for healthcare activities (of primary, secondary and tertiary care), 16% for drugs and medical equipment, 10% for cash benefits, 3-2% for HIIS's operation, and 2-1% for payments based on social security agreements (ZZZS 2003: 60; ZZZS 2012: 92). One observable variation for that period (2002-2011) was the downsizing of the share of funds spent on healthcare goods and services, and the upgrading of the medical personnel wages (ZZZS 2012: 100).

Private financing consists for the most part of voluntary insurance for covering co-payments and out-of-pocket payments (Albrecht et al. 2009). The table below demonstrates that the share of private expenditure on health has not been insignificant with values between 20 and 30 percent of total expenditure.

Table 5 Slovenia - public/private healthcare expenditure (% in total healthcare expenditure) (2000-2010)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public*	74	73,3	73,4	68,2	69,4	68,9	72,3	72,3	73,4	73,4	73,7
Private	26	26,7	26,6	31,8	30,6	31,1	27,7	27,7	26,6	26,6	26,3

Source: World Bank 2012 *Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowing and grants (including donations from international agencies and nongovernmental organizations, and social (or compulsory health insurance funds).

The sizeable private health expenditure, even before 2000, was related to the fact that Slovenia reacted early to the fiscal pressures imposed on the healthcare system, by introducing *voluntary*

health insurance in 1993 (Albreht et al. 2009: 55). It emerged as a reaction to the curtailed mandatory insurance coverage and the widened individual responsibility. “The previous practice of out-of-pocket co-payment was deemed unacceptable” (Stanovnik 2004: 327), and consequently, the *voluntary complementary insurance* was set up for covering co-payments. At first voluntary insurance was offered by the HIIS and one more private company, and following legal changes in 1998 the voluntary insurance was completely separated from the compulsory insurance and has been managed by independent insurance providers (Albreht et al. 2009: 56). Since the voluntary insurance has become quasi-mandatory, as most of the population (95%) has been voluntarily insured (Kolarič et al. 2011: 296), it has remained strongly controlled by state regulations. Also *voluntary supplementary insurance* exists, enabling higher standard and wider scope of benefits; however its relevance is marginal.

3.2.2.2 Coverage

All residents in Slovenia are covered by the mandatory healthcare insurance, either as contributors or dependants of contributors. This was defined already by the Healthcare and Health Insurance Act of 1992 (Albreht et al. 2009: 49). Twenty one categories of insured persons are defined, and fall under the categories of employees, farmers, self-employed, pensioners, unemployed, socially disadvantaged and war veterans. The contributions for the unemployed are assumed by the Slovenian Employment Service and of the socially disadvantaged and the war veterans by the state or local budgets. The other categories of insured persons pay contributions on their wages or income. The family members of the insured are indirectly covered by the insurance. Coverage by the mandatory insurance is practically 100%. For instance, in 2002 approximately 1% of the population did not have access to health insurance, in 2011 approximately 0,5% of the population (ZZZS 2003: 17; ZZZS 2012: 20). The identified reasons for non-coverage are generally of technical or temporary nature, such as the case of foreign nationals who depend on another country’s relevant administration to register them with the Slovenian health insurance, or change of status while waiting for decision on entitlement to pension or unemployment benefit (Ibid.). The introduction of the health insurance card system in 2000 was identified as the most important instrument for reaching such a small portion of non-included (ZZZS 2007: 27).

The voluntary complementary insurance has soon come to play a vital role in the healthcare system, as without it access to services from the compulsory insurance would be hampered, especially for low-income groups which have not been able to afford the co-payments. However, also premium levels were seen as a potential barrier to access and following a discussion upon an initiative to abolish the complementary insurance and integrate it in the compulsory insurance through increased contribution rates, the complementary insurance was kept⁶⁹ by introduction of a risk-equalization scheme, which leveled out the differences among insurance companies and set a unified flat premium for all by mid-2008 amounting around 20 Euros (Albreht et al. 2009: 56). In 2009 the state resumed the coverage of the voluntary health insurance for the poorest population (Kolarič et al. 2011: 296).

3.2.2.3 Benefits

The population in Slovenia benefits from two types of benefits: *benefits in kind (healthcare services)* and *cash allowances* (European Commission 2012b). The benefits in kind include access to primary, secondary and hospital healthcare, right to preventive care, pharmaceuticals, medical devices and supplies. They are either fully covered by the compulsory insurance or require co-payments of varying percentages of the total cost. All insured persons and their dependants have unrestricted access to all healthcare services, enabled through the voluntary insurance scheme. Direct out-of-pocket payments exist also in Slovenia, for some services not offered under any health-insurance, such as plastic surgery, or for services not included in the compulsory health insurance, like special hospital services and better food, or for shortening of waiting time (Albreht et al. 2009: 57-58).

Cash allowances do not apply to all insured persons (ZZZS 2007: 31). They comprise of salary compensation in case of temporary inability to work (injury/sickness benefit, benefit for nursing a family member and some other cases), reimbursement of travel costs related to the use of healthcare, death grants, and maternity/paternity benefits. The benefits, including their scope, have not changed over the years.

3.2.2.4 Structure

The healthcare services provision is organized on three levels: *primary*, *secondary* and *tertiary healthcare*. Primary healthcare is organized through healthcare centers and health stations, but also individual private practices offer healthcare services at the primary level. Secondary healthcare is realized in hospitals, polyclinics and spas, while tertiary healthcare services are performed by university hospitals and university institutes. At the secondary level there are also private medical institutions, but these are a few compared to the private provision at the primary level. In 1993, the number of public providers was 180 and of private practitioners 313, and in 2006, these numbers were 219 for public providers and 1409 for private ones (ZZZS 2007: 36).

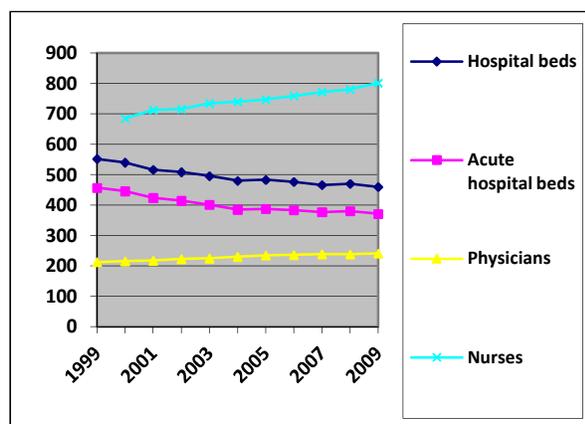
The primary level was reformed into a gatekeeper of the healthcare system as early as 1992. Since then patients can choose a family doctor from the general practitioners, as well as decide upon a gynecologist or pediatrician, as the first person to turn to when entering the system. Physicians practice either under concession and have a contract with the HIIS or work without a contract in which case are funded out-of-pocket. Employed physicians are paid under the collective agreement for physicians (Albreht et al. 2002: 65; Albreht et al. 2009: 66).

A reform of the way of financing of primary care (both public and private), contracted with the HIIS, was implemented in 2001, introducing a combination of capitation fee (based on the number of registered patients) and fee-for-service payment (defined scope of services and referrals to the secondary level) (ZZZS 2007: 38; Albreht et al. 2009: 61). The new payment method has been discouraging referrals to the other levels and promoting preventive activities.

Also on the secondary and tertiary level reforms of the payment method took place. Like in the primary care (disregarding the capitation element), outpatient services are remunerated based on the fee-for-service principle. The old input oriented method of payment of inpatient hospital services was gradually replaced by the diagnostic-related-groups (DRG) system⁷⁰, which took effect in 2003 (ZZZS 2007: 39; Albreht et al. 2009: 63). This is for the case of acute hospital care. In the case of non-acute hospital care, there are other payment mechanisms in place, for example per hospital bed days. Also the salaries of the employed medical personnel are exempt from the DRG system and are remunerated based on a negotiated collective agreement.

The altered way of financing had the intent of cost reduction. The figure below shows that the number of hospital beds has during the last decade been downgraded. Also, the average length of stay was cut from 9 to 6,9 days on average (1999-2009). On the other hand, the rate of hospitalization increased: inpatient care discharge per 100 inhabitants was 16,56 in 1999 and 17,86 in 2009, and acute care hospital discharge changed from 15,9 to 17,15 for the same period. Outpatient contacts as part of the primary and ambulance care have been fluctuating around the value of 7 contacts per person per year.

Figure 3 Slovenia - hospital beds and medical staff, per 100.000 inhabitants (1999-2009)



Source: World Health Organization Regional Office for Europe 2012.

The number of medical personnel has been growing. Nevertheless, according to the Medical Chamber this is still insufficient to cover shortages (Stanovnik and Turk 2010: 18). In particular remote areas are negatively affected, as “in rural areas [...] a physician may have as many as 3.000 patients, whereas in Ljubljana, the capital, a physician may have as few as 750 patients” (Albreht et al. 2002: 38).

Regional disparities and lack of human resources could represent a barrier for access to healthcare, despite the universal coverage. Other identified problems include waiting lists, quality evaluation of the healthcare services and long-term financial sustainability of the system (Stanovnik and Turk 2011). In 2011 the Slovenian Government proposed a Healthcare System Upgrade by 2020, a strategic document aiming further reform of the Slovenian healthcare system, by upholding and improving geographical, qualitative and financial accessibility of the Slovenian health-care system, at the same time reconciling the goals with the need for financial

sustainability (cf. Ministry of Health 2011). Early elections and the subsequent political change held this process back.

3.2.3 Labor market and unemployment protection

Slovenia's economy recovered rather swiftly from the initial shock accompanying the break-up of Yugoslavia. The country inherited a much smaller unemployment rate when compared to the rest of Yugoslavia. During the 2000s it has been continuously decreasing. The Labor Force Survey was first carried out in 1995. Table 6 Unemployment rates in Slovenia, according to LFS* demonstrates the unemployment rates according to this methodology. After 2008, however the unemployment rate grew considering that the global financial crisis took its toll on the Slovenian economy.

Table 6 Unemployment rates in Slovenia, according to LFS* (1996-2011)

Year	96*	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11
Rate	7,3	7,1	7,7	7,4	7,2	5,9	5,9	6,6	6,1	5,8	5,9	4,9	4,4	5,9	7,3	8,2

Source: ILO 2011 (1996-2008), Eurostat 2012 (2009-2011) *persons aged 15 years and over, **rate not strictly comparable with subsequent years.

During the same period (1996-2008) employment rates of the population aged 15-64 improved (61,6-68,6) and then dropped again to 64,4 (2011) (Eurostat 2012). The successful economic restructuring accommodated the Slovenian labor force. The Slovenian manufacturing sector still employs a large part of the labor force which adjusted to the shift from low-tech to high value added production. The agricultural sector has also retained its share. The services sector expanded and in 2007 accounted for 55% of the employment (OECD 2009b: 40). Most of the labor force is in wage employment, and self-employment is rare (OECD 2009b: 43).

Notwithstanding the successful adaptation of the labor force to the economic restructuring process, the resulting job creation was not equally beneficial to all. In particular, youth and the elderly have had difficulties in accessing the labor market. The pension reform and the removal of early retirement incentives contributed to slight improvement of the activity rates of older

persons, especially those aged between 55 and 59 (OECD 2009a: 96). The youth unemployment rate was higher than the average unemployment rate, but it also contracted from 12,3% to 7,4% (2003-2008) for those aged between 15 and 29 (OECD 2009a: 105). Aside the favorable economic situation during that period, youth employment improved also as a result of the labor market flexibilization and the application of active labor market measures. In particular students make use of a specific type of temporary employment contract. Temporary employment contracts' proportion in the total number of employees in 1996 was 8,4% and in 2004 arrived at the figure of 18%, and as for the age group 15-24 - their proportion was 29,7% and 63,1% respectively (Eurostat 2012). The incidence of women in this type of contracts is more notable than of men.

3.2.3.1 Financing

The unemployment protection system is financed on the principles of social insurance. The *contribution rate* on gross wage has not been changed since 1996 and amounts 0,2% (0,14% contributed by employees and 0,06% by employers)⁷¹. Such a small rate is insufficient to cover the costs of the Employment Service of Slovenia (ESS), despite the well-performing economy and wage levels. Its share in ESS's revenues has however improved from 9,2% to 25,9% between 1997 and 2007 (Rončević 2001: 33; ESS 2007: 25), while the rest is compensated by budget transfers.

Table 7 Slovenia - structure of the expenditure on Labor Market Policies, % of GDP illustrates the unemployment insurance based expenditure. In 2009 overall spending increased due to the extraordinary government support against the adverse effects from the global economic crisis. Large part of the active labor market measures (ALMM) was financially supported by the European Social Fund (ESF) within the 2004-2006 programming period. ESF's support was continued for the 2007-2013 period. The lower expenditure rates on ALMMs in 2007 and 2008 resulted from the "administrative uncertainty concerning the shift to a new planning period" (OECD 2009b: 86).

Table 7 Slovenia - structure of the expenditure on Labor Market Policies, % of GDP (2005-2009)

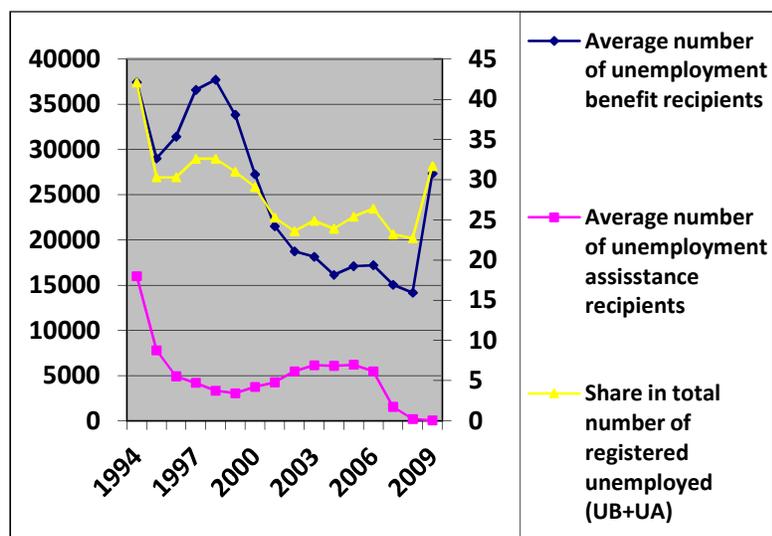
Year/LMP expenditure	2005	2006	2007	2008	2009
LMP support (passive)	0,39	0,38	0,3	0,27	0,63
LMP measures (active)	0,19	0,18	0,11	0,09	0,23
LMP services*	0,1	0,09	0,09	0,09	0,1
TOTAL	0,68	0,65	0,5	0,45	0,96

Source: Eurostat 2012 *administrative costs of the Employment Service of Slovenia.

3.2.3.2 Benefits and Coverage

The most important benefit that can be received under the unemployment insurance scheme is the *unemployment cash benefit*. Up until 2006 also *unemployment assistance* could have been claimed upon expiry of the unemployment benefit or upon the termination of a traineeship contract shorter than 12 months (ESS 2006: 33). Unemployment assistance was a quasi-social assistance benefit since it was conditional on a means-test. Figure 4 illustrates the gradual phasing out of the unemployment assistance following 2006.

Figure 4 Slovenia - number of benefits recipients and their share in the total number of registered unemployed (1994-2009)



Source: ESS 2011 *right axis shows the share in percentage.

The figure further shows that there has also been a significant drop of the number of unemployment benefit recipients, which took place especially after 1998. The Law on Employment and Unemployment Insurance, enacted in 1991, was changed many times afterwards⁷². Most notable change was introduced in 1998 when the *entitlement period* was cut to 3 months for insurance period of 12 months to 5 years, 6 months for insurance of 5-15 years, 9 months for insurance of 15-25 years and to 12 months (or 18/24 months if the insured person is older than 50/55 years) for insurance period over 25 years (OECD 2009a: 92-3). Under the previous legislation the duration of the benefit was 3-24 months, with minimum qualifying period of 9 months of uninterrupted service (or 12 interrupted), with the extension possibility of 3 more years for persons who are within 3 years to retirement age (Vodopivec 1998: 179). Between 1998 and 2010 the legislation was biased towards different categories of benefit recipients. Most of the benefits went to older workers with longer years of service, while less than 10% of the unemployed younger than 40 years of age or with less than 10 years of service received a benefit (OECD 2009b: 81).

The new 2010 legislation reintroduced the minimum qualifying period of 9 months, but instead of uninterrupted duration, as a requirement in the last two years of service. This change targeted mainly the young people who due to unstable and short-term employment were less frequently entitled to unemployment benefit (Kolarič et al. 2011: 298). The longest entitlement period was set at 19/25 months if the insured person is older than 50/55 years and has been insured over 25 years.

Other right for the unemployed persons which remained was the *right to health insurance and pension and disability insurance*, while the right to compensation of transport and moving expenses was canceled. However, the 2010 legislation limited the right to payment of pension and disability insurance to one year before completing the minimum conditions for old-age pension. The idea was to boost the involvement of the elderly in the labor market (Kolarič et al. 2011: 299).

The unemployment insurance scheme covers all employees, regardless of the type of employment contract, which could be of unlimited duration, fixed-term or even part-time (but a minimum of half full-time) (Kolarič et al. 2011: 298). According to the old legislation the self-

employed could be insured against unemployment on a voluntary basis, but after 2010 they were also included in the compulsory insurance scheme. The benefit can be acquired only if the employment ceased as a result of accident, and not in the case of choice, or when the termination was because of underperformance or inappropriate conduct of the employee, or the termination was caused by resignation of the employee, with some exception like *vis maior* or employer's culpability.

It is the unemployed person's obligation to register in front of the Employment Service within a given time-frame and to be actively seeking work. The new 2010 legislation allowed the possibility to combine the cash benefit with income from part-time work, if the income does not exceed 200 Euros. Thus, the passive elements of the unemployment protection system became conducive to labor market inclusion.

The *level of the unemployment benefit* is dependent on past earnings. Until 2010 the replacement rate was: 70% of the reference basis for the first 3 months and 60% thereafter (Vodopivec 1998: 182; Rončević 2001: 16; Kolarič et al. 2011: 298). The reference basis was the average monthly gross earnings received in the last 12 months prior to the unemployment. The 2010 legislation changed the reference base into average monthly gross earnings received in the last 8 months prior to the termination of employment. The replacement rate was set at 80% of the reference basis for the first 3 months and 60% for the following months.

The cash benefit has a *minimum* and *maximum* determined amount. Since 2010, the minimum benefit cannot be lower than 350 Euros, and the maximum cannot be higher than three times of the minimum benefit. These definitions were subject to several changes over the years.

3.2.3.3 *Employment measures*

Aside from the administration of the unemployment benefits, the Employment Service of Slovenia is the main public agency which provides *counseling and employment mediation*, and *activation policies*. Counseling and employment mediation belong to the traditional task description of the ESS and are performed through collecting mandatory notification of job vacancies, carrying out personal interviews with the unemployed and making impersonal notifications for the job seekers. Complementary to the work of the ESS, private companies,

employers, schools and NGOs can be given one-year concessions for providing employment services. Placements by all the non-state agencies in 2008 accounted for about 4% of the exits to work from the unemployment register (OECD 2009b: 79).

Already in the 90s Slovenia spent considerable resources on active labor market programs. Expenditure was highest in 1991 and 1992, when unemployment was most critical, with 0,83 and 1,17 percent of GDP respectively, and then declined to about 0,4 to 0,5 percent in the late 90s and 2000 (Vodopivec 2004: 296). During the second decade, spending on ALMMs was lowered, as the figures on financing show. Considering that in that period most of the funding for the activation policies came from the European Social Fund, Slovenia's public spending on ALMMs was relatively modest. Most of the activities 2004-2006 included trainings, referral to continued education and job subsidies (European Social Fund 2012). These activities continued also in the following period (ESS 2006; ESS 2007).

The activation measures, albeit not directly evaluated, were considered to have contributed to the decline in unemployment until 2008, given the general positive experience from job-counseling and training measures in other countries (OECD 2009b: 87). Job subsidies and tax reliefs are commonly criticized for their deadweight effects, and ESS's strategy has been assessed as insufficiently effective especially towards the difficultly employable categories, such as the elderly and the long-term unemployed (Ibid.).

3.2.4 Social protection

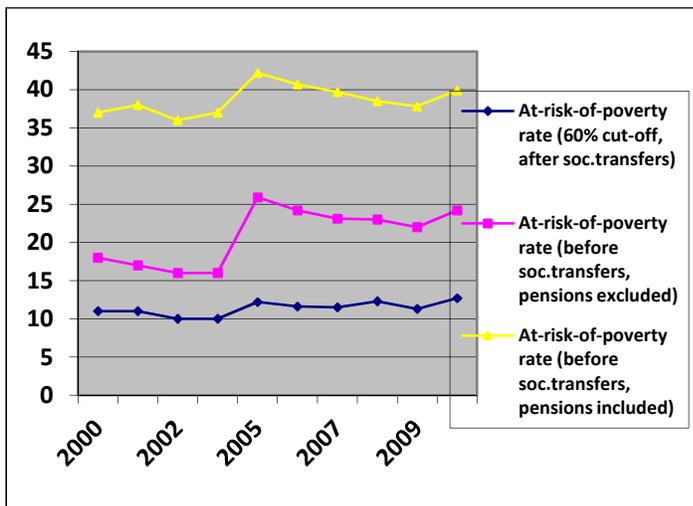
The *poverty* rate measured in Slovenia in the early nineties was not directly comparable to rates measured in other EU countries, but figures claiming that 13,6% of households in 1993 were poor and 14,9% in 1996, have ranked Slovenia among the countries with a relatively low rate of poverty (Vidmar 2000: 3-4). Another study has come to similar rates, measured using poverty threshold of 60% of the median equivalized income (Stropnik and Stanovnik 2002: 54). Figure 5 illustrates that at the beginning of 2000 the poverty rate dropped to 11 and 10 percent, and remained 11,36 on average throughout the second decade of the transition.

Notwithstanding the low poverty levels, some *types of households* are particularly poverty affected, such as single person households, especially ones with an adult over 65 years of age,

whose poverty rates have been above 40% (Eurostat 2012). Also single person households with dependent children have higher poverty rates than two adult households, either with or without dependent children.

Figure 5 also shows the importance of *social transfers* for poverty reduction and their effectiveness. Various social benefits have contributed to the alleviation of poverty of the groups they were targeting. Hence, pensions are an important source of income for households with pensioners, although poverty figures there have remained higher than for other households; unemployment benefits are an important source of income for households with unemployed persons, who would have suffered greatly had there not been these benefits; and finally, child benefits have acted as key income equalizer (Stropnik and Stanovnik 2002).

Figure 5 Slovenia - poverty indicators (2000-2010)



Source: Eurostat 2012.

Following a period of rising *inequality*, between 1997 and 1999 a considerable decrease was observed, when the Gini coefficient fell to 0,23 (0,25 without social benefits), compared to 0,26 (0,29) in 1993 (Stropnik and Stanovnik 2002: 48). Between 2000 and 2004 the Gini coefficient was 0,22, and between 2005 to 2010 it had a value around 0,23 (Eurostat 2012). These values are smaller even than the EU15 average.

Inequalities based on *wages* have been slightly higher. Several measures against wage dispersion have been undertaken, such as introduction of a minimum wage (1995) at 40% of the average

gross wage, as well as restriction imposition to some of the highest salaries (UNDP 1998: 64-5). Private sector wages have been more dynamic, but both public and private sector wages have remained within the framework of the political agreement from 2001 to keep wage growth below the productivity level (OECD 2009a: 40).

The low income inequality has largely been a result of the strong distributive role of the tax and benefit system (OECD 2009a: 40; OECD 2009b: 49).

3.2.4.1 *Financing*

Social protection schemes are tax financed. The main financier of social services is the central state, albeit other actors play a part. For instance, among other competences, municipalities provide services in the area of social care, education, healthcare and housing, for which purpose they have own resources at disposal, but this rarely suffices to finance their activities, and therefore receive additional support by the state. Municipalities provide some of the social services on their own or through specialized public organizations, non-profit and private organizations (Dimitrovska Andrews and Ploštajner 2001: 17). Additionally, the state has also transferred the implementation of some services to the private sector. Under the *Social Welfare Program*, the government has been subsidizing non-governmental organizations' welfare projects since 1993.

Government spending on social welfare, according to data on the main types of benefits, has been 2,4% of the GDP on average.

Table 8 Slovenia - social welfare expenditure according to main types of benefits, % of GDP (1996-2009)

Year/Expenditure	1996	2000	2005	2007	2008	2009
Family/children	1,9	2,2	1,9	1,7	1,8	2,2
Social exclusion	0,4	0,4	0,6	0,5	0,4	0,5

Source: Statistical Office of the Republic of Slovenia 2012.

3.2.4.2 Benefits and Coverage

The Social Security Act⁷³ envisages several types of social services and benefits intended to prevent and alleviate social distress. The main cash benefit is the *financial social assistance* (FSA), which provides means for meeting the minimum needs in the amount guaranteeing their subsistence. Other benefit categories involve *institutional care*, *non-institutional care*, such as family support, care for adult persons with physical or mental handicap, and other *social work services*, such as personal counseling, counseling for employees.

Following the 2001 amendments (OECD 2009b: 105), financial social assistance has been divided into four types: temporary and permanent social assistance, and extraordinary social assistance (temporary and one-off). As a rule the financial social assistance is temporary. Its duration may not exceed three months when granted for the first time or six months if circumstances remain unchanged. In special cases the benefit may be granted for a maximum of twelve months. Permanent assistance is given to those whose social status is not likely to improve, due to their age, illness, invalidity and other relevant circumstances. The permanent assistance recipients are basically the unemployable categories.

The employable recipients of financial assistance are required to actively look for work, or otherwise risk losing their cash benefit. The 2006 activation reforms have on one hand made the cash transfers conditional upon the acceptance of employment when it is offered, and on the other have abolished the unemployment assistance for the unemployed, making them eligible for social assistance. As a result, the number of unemployed among the recipients of FSA has drastically increased since 2007 (Kolarič et al. 2011: 300), however, overall, the number of beneficiaries has been declining (see Table 9). The years 2009 and 2010 were somewhat exceptional from this trend, related to the distressing effects of the economic crisis. The number of beneficiaries was highest before the reform (2005) and encompassed around 2,7% of the population.

Table 9 Slovenia - average number of financial social assistance recipients* (2002-2010)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Temporary	37.421	47.498	54.367	55.696	52.910	43.197	36.355	41.285	48.255

FSA									
Permanent FSA	361	451	463	472	467	446	439	425	411
Temporary extraordinary FSA	368	817	996	1.074	1.172	821	969	1.015	979
One-off extraordinary FSA	1.831	2.729	3.446	3.735	3.513	2.764	2.638	3.952	4.078

Source: MDDSZ 2012 *recipients are persons who are entitled to social assistance for themselves and their family members.

The FSA is means-tested and tied to the basic minimum income, which is a category introduced in 2002 (Stropnik 2011: 1). The level of the basic minimum income is determined once a year. In 2009 the basic amount of the minimum income was reviewed, “in order to check its suitability eight years after its introduction” (Stropnik 2011: 2). In 2011 it was 230,61 Euro. This amount has been increasing over the years and was highest in 2011. The amount of the benefit received depends on the number of family members - 100% of the basic minimum income for the first adult or single person, 70% for every next adult and 30% for a child. For single parent families, the benefit is increased.

Other allowances are an important part of the Slovenian welfare system, such as child benefit, subsidies for kindergarten, parental allowance, childbirth allowance, large family allowance and others. The *child benefits*, as mentioned before, have acted as a key income equalizer. Although means-tested, they are received by almost 90% of the population, and the decrease in numbers over the years has been more a result of decreasing number of births (OECD 2009b: 111). The amount of the benefit depends on the income level of the family and is determined as a percentage of the national average wage of the previous year (from 15% to 99%). In that respect, low-income families with children receive a much higher benefit than higher-income families. The income threshold of maximum 99% of the monthly average wage of the previous year has been valid since 1999; from 1993-1999 it was 110%, while until 1993 it was 50% (Ibid.). Furthermore, a differentiated benefit level with regard to the birth rank of the child was

introduced. A new Law on Parenthood and Family Benefits (2001) kept the benefits at their high level, and introduced gradual increases for some categories, such as for children in single-parent families (10% higher), or pre-school children not included in pre-school care provided by kindergartens (Stropnik and Stanovnik 2002: 64). In 2011, the amounts of the child benefit for the first income category (income per family member up to 15% of the average monthly wage) were 114,85 Euros for the first child, 126,33 for the second and 137,83 for the third or more, and in the last category (income per family member 75-99% of the average monthly wage) they were 19,97 Euros, 27,63 and 35,28 Euros respectively (MDDSZ 2012).

A new regulation adopted in 2010 introduced profound changes in the non-contributory means tested benefits, which did not enter into force until January 2012 (Stropnik 2011: 1). A new Law on the Enforcement of the Rights to Public Funds⁷⁴ was enacted to harmonize the rules on awarding different kind of welfare benefits (child benefit, financial social assistance, care allowance and state education grant), in order to prevent their accumulation. Furthermore, the new Social Protection Benefits Act⁷⁵ endorsed a higher amount of the basic minimum income for financial social assistance and a new equivalence scale as a work incentive. Despite the increased level of the basic minimum income, the FSA was rationalized, due to the altered rules of means-testing, according to which other welfare benefits are taken into consideration when determining eligibility. In the short-run, despite the stricter rules, no significant reduction of beneficiaries was expected, because of conditions of the labor market in the financial and economic crisis (Stropnik 2011: 2).

3.2.4.3 Structure

The Slovenian social protection system is centralized and mainly public. The social protection tasks are being carried out by 62 Centers for Social Work, 55 residential homes for the elderly, 7 special institutes for adults, 5 social care institutes for training of children and youth with severe or serious mental development disorder, 40 occupational activity centers and 8 crisis centers for children and youth (MDDSZ 2012). This constitutes the main public welfare network. The private element was slowly allowed entrance in the provision of social services, mainly in the care provision for the elderly, however plays a lesser role.

As already mentioned, also local communities and non-governmental organizations have become increasingly involved in the social services provision. Their work has been to a large extent financially supported by the state.

3.3 The Erased

Before a conclusion about the Slovenian welfare system is given, a few words on the ‘Erased’ are in order. After the succession from former Yugoslavia the majority of the residents of non-Slovenian origin gained Slovenian citizenship. Those who did not apply for Slovenian citizenship were in 1992 secretly erased from the register of permanent residents. Either because of unawareness that they were obliged to submit a request for obtaining citizenship according to the new Slovenian legislation, or due to failure to understand the new concept of national citizenship, 18.305 individuals together with the 2.427 people who had applied for Slovenian citizenship but had been refused were taken off the registry (Jeffs and Lipovec Cebon 2009: 37-38). This was the number officially recognized by the Slovenian Ministry of Interior and accepted by the Constitutional Court in 2003, although various other sources have found the figures of the ‘Erased’ ranging between 62.000 and 130.000 persons (Jalušič and Dedić 2007: 95-96).

The act of erasure had far-reaching consequences. The ‘Erased’ were deprived of all the rights that arise from a status of a permanent resident. They were stripped of all political and socio-economic rights and proclaimed illegal. As a result some suffered expulsion from Slovenia, while those who stayed were denied access to employment, education, housing, pension, healthcare or other welfare benefits.

Some official documents recorded this problem, however very randomly. For instance, the annual report of the Health Insurance Institute in 2002 stated that the problem of health insurance and the related access to healthcare of the ‘Erased’ had not yet been resolved (ZZZS 2002: 18). Only with regard to healthcare, some studies have found that “a number of the Erased have not had a single medical examination in the last 16 years” (Jeffs and Lipovec Cebon 2009: 41) and that the absence of health protection has produced severe negative consequences for their health status. Other studies have found that Slovenian non-nationals were denied their pension rights and this practice persisted until the conclusion of bilateral social security agreements between

Slovenia and the other former Yugoslav republics, after which each state resumed responsibility for the insurance periods completed on their territory (Stambolieva 2012). Nevertheless, this referred to insured persons with regulated legal status in either of the states, which was not the case with the ‘Erased’ who could not claim their pension rights. Some studies have focused on the collection of individual testimonies which provide moving evidence about people who by the act of deletion not only had lost everything but faced further suffering and exclusion (Stojić 2008: 128).

The majority of the ‘Erased’ left Slovenia, others managed to regularize their status, while around 4.000 cases remained unresolved (UNHCR 2007).

On two occasions, in 1999 and 2003, the Slovenian Constitutional Court found the act of erasing as unconstitutional, however the issue continued to spark controversy and discrimination persisted. A 2003 law which aimed to allow retroactive reinstatement of the status of the erased was rejected in a referendum called by the then opposition. In 2010 the Slovenian parliament passed a law regulating the legal status of the ‘Erased’, which nevertheless failed to encompass all categories and to give access to economic, social and cultural rights (Amnesty International 2012). The Slovenian newspaper *Večer* called the story of the Erased “the most serious breach of human rights in history of independent Slovenia” (cited in Freedom House 2011).

3.4 Political Context

The 1989 national constitutional changes legalized political pluralism and made way for the Slovenian secession. The results of the first multi-party elections in 1990 weighted in favor of the reformed communists, however they did not come to power, as a coalition of anti-communist parties joined forces and was able to form a government. During this time Slovenia prepared for self-determination - an independence referendum was organized (1990) and the date for exiting the Federation was set (1991). The new government, led by Lojze Peterle from the Slovene Christian Democrats (*Slovenski Krščanski Demokrati, SDK*), did not hold long. The heterogeneity of the coalition partners and the conflicting opinions on important transition topics, such as denationalization and privatization contributed to the ousting of the government in 1992 by a no-confidence vote (Gallenkamp and Kassner 2010: 1765). The new government under Janez Drnovšek from the Liberal Democracy of Slovenia (*Liberalna Demokracija Slovenije*,

LDS), a party which emerged from the former Socialist Youth League of Slovenia, better reflected the ideological preferences within Slovenian society. Fink-Hafner and Ramet (2006: 33) write that survey results showed that between 1990 and 1992, 69 percent of the surveyed identified themselves as ‘center-left’, and only 31 percent – as ‘right of the center’. This was confirmed in the next elections.

The 1992 parliamentary elections saw the victory of Drnovšek's LDS, which obtained 23,5% of the votes, the SDK came in second with 14,5% and the Social-democrats were third with 13,6% (see Annex II). With the exception of a short interlude in 2000⁷⁶, there was strong continuity of the political rule all the way until 2004. Janez Drnovšek, who served as a former President of the Presidency of SFR Yugoslavia between 1989 and 1990, was Prime Minister of LDS-led governments between 1992 and 2002, when he was elected President of Slovenia, in lieu of Milan Kučan, former leader of the League of Communists of Slovenia and Slovenian President between 1990 and 2002 (Fink-Hafner and Ramet 2006). In 2002, Anton Rop (LDS) took over the Prime Minister position until 2004, when a fundamental elite change occurred.

Under Drnovšek's consensus-oriented leadership style, Slovenia embarked on a gradual transition to market economy and liberal democracy. In fact, all but one government between 1992 and 2004 represented wide coalitions (cf. Lukšič 2010: 746) and inherently leaned towards consensual decision-making. Also, the 1991 Slovenian constitution laid the institutional basis for a corporatist democracy. Slovenian parliament is bicameral and incorporates the National Assembly (*Državni Zbor*), whose members are directly elected and which holds the main legislative function, as well as the National Council (*Državni Svet*), whose members represent five key interest groups, such as the employees; employers; farmers, tradesmen and independent professions; non-commercial interests and local communities. Thus, the National Council embodied one form of Slovenian corporatism, which had existed since the beginnings of Slovenian polity (Lukšič 2003) and which flourished under the Yugoslav system of ‘self-management’⁷⁷ as a corporatist alternative to political pluralism. In particular, mutual bargaining and social agreements between the ‘self-management interest communities’, introduced in the seventies as a principle underpinning decision-making in politics, economy and society, found a fertile ground in Slovenia. The National Council has an advisory role, can propose bills and has the right to an absolute veto. Finally, referenda are an important legal instrument which

underlines the distinct democratic transition of Slovenia. The National Assembly is obliged to call a referendum if requested by one-third of its members, by the National Council, or 40.000 voters, and the referendum results are binding (Lukšič 2010: 749). During the last two decades it was a frequently used instrument, through which Slovenian citizens had a direct influence over policy-making in matters of the political system, the economy and social-policy issues.

Slovenia was able to quickly build functioning democratic institutions and establish the rule of law, thus clearly separating itself from the other former republics. However, Slovenia's transition into democracy has been far from pure. The Slovenian self-determination process was exclusively ethno-centric. Two minority groups – Italians and Hungarians – are officially recognized (Lukšič 2010: 733) and based on this status also elect their political representatives. All other minorities, as the above case of the 'Erased' demonstrated, literally became invisible and as a result faced harsh discrimination. Interestingly, the European Union did not address this human rights violation case in the pre-accession process and thus failed to consistently apply conditionality (cf. Shaw 2010). Instead, the unpopular issue was placed under the carpet and it "failed to make a substantial dent in the overall success rate of Slovenia, which has been widely seen in international spheres as the only success story of the dissolution of Yugoslavia and a deserving member of the '2004 team' – i.e. the first post-1989 enlargement of the EU towards Central and Eastern Europe" (Shaw 2010: 22).

From the beginning, there has been a consensus among Slovenian political actors that the future of Slovenia lies in the European Union. Even the radically nationalist Slovenian National Party (*Slovenska Narodna Stranka, SNS*), which in 1992 won 10% of the electoral vote, and in 1996 held 3,2% (see Annex II), "in its program mentioned Slovenia [...] in European structures as its first point" (cited in Boduszynski 2010: 117), although one has to have in mind that Slovenian animosity was mainly directed towards other peoples of the former Yugoslavia, and not related to its European neighbors. The European Union on its part offered a European perspective to Slovenia immediately after recognizing its independence in 1992. One year later the EU signed a Cooperation Agreement with Slovenia, which together with the annually renewed preferential trade regimes ensured continuity in trade relations, given the old Trade and Economic Cooperation Agreement between the EU and SFR Yugoslavia was suspended in 1991 (European Commission 1997). The right to privileged access to European markets compensated a great deal

for the loss of the Yugoslav market. A Europe Agreement outlining the legal basis for Slovenia's integration into the EU was signed in 1996, but did not enter into force until 1999 (European Commission 2004). At first, the signing of the agreement was delayed due to the Slovene real estate legislation which did not permit EU nationals to own property in Slovenia. After it was agreed that "the Slovene real estate market would be opened to all EU citizens four years after entry into force of the Europe Agreement, but would already be liberalized on entry into force for those EU citizens who have lived at least 3 years on the territory of Slovenia" (European Commission 1997: 9), which referred mainly to Italian citizens, Italy lifted its veto on Slovenian accession imposed earlier (Boduszynski 2010: 129), the Agreement was signed and Slovenia went on to undertaking the necessary constitutional changes so that these provisions could take legal effect. In its recommendation for the start of negotiations, the European Commission praised Slovenia for its functional democratic structures and market economy, and urged Slovenia to align its legislation with the Community *acquis* in particular with regard to the Internal Market rules, the environment-, employment and social affairs and energy sectors, and to carry out an administrative reform (European Commission 1997: 118). The negotiations commenced in 1998 and ended after four years. In 2003, 90% of Slovenes voted in favor of accession to the EU (European Commission 2004) and in 2004 Slovenia joined the EU together with seven other post-communist countries from Central and Eastern Europe as well as Cyprus and Malta. That same year Slovenia was admitted to NATO as well, although the results of the 2003 referendum were not as supportful⁷⁸.

Although the Liberal-Democrats led the country into the EU, which was met with great approval by the population, as the referendum results showed, they lost the subsequent parliamentary elections (2004), after which the party never recovered. LDS received 22,8% of the votes, whereas the biggest winners were the right-wing parties: Slovenian Democratic Party (*Slovenska Demokratska Stranka, SDS*) with 29,1% of the vote, New Slovenia-Christian People's Party (*Nova Slovenija- Krščanska Ljudska Stranka, N.Si*) with 9,1% of the vote and the Slovenian People's Party (*Slovenska Ljudska Stranka, SLS*) with 6,8% (Annex II). Fink-Hafner and Ramet argue that the voters punished LDS's shift to the left under the Prime Minister's Rop mandate (2002-2004) and were also disappointed with the party's various scandals and corruption (Fink-Hafner and Ramet 2006: 38). On the other hand, the SDS successfully played the national sentiment of the Slovenes. Before the elections were held, SDS and N.Si called a referendum on

the 2003 Law regulating the restoration of full civic rights to the 'Erased', where 96% of the constituents voted against (Gallenkamp and Kassner 2010: 1786).

The new center-right government of Prime Minister Janez Janša interrupted the tradition of center-left governments in Slovenian transition and introduced a new policy-making style. In socio-economic sense the government envisaged to make a "shift from a social democratic model towards a liberal model" (Fink-Hafner 2006a: 1264) and it relied on the politics of nationalism, anti-communism, close ties with the Catholic Church and unilateral decision-making. For the smooth operation of its objectives the government tried to put the media, the public administration and even the judiciary under its control. However, given that its goals and undertaken measures clashed with the established democratic tradition and consensual decision-making, the government soon faced strong public resistance. Eventually, such an approach backfired. For instance, the 2006 local elections made Zoran Janković, a 'victim' of the 'cadre tsunami' politics, which consisted of a broad range of personnel changes in the public administration and state-owned enterprises, mayor of the capital Ljubljana (Fink-Hafner 2007: 1111). After the death of President Drnovšek, the candidate supported by the Social Democrats (*Socialni Demokrati, SD*) and the newly founded party Zares, Danilo Türk, became President of Slovenia at the presidential elections held in 2007, which was also a sign of the waning public support for Janša's government (Fink-Hafner 2008: 1135). Janša himself became associated with a corruption affair in 2008, which together with other emerging affairs and the government's hostile attitude towards official anti-corruption policies in general (cf. Fink-Hafner 2008; Fink-Hafner 2009) sealed his unpopularity at the parliamentary elections that year.

A new center-left government including the SD, Zares, LDS and the pensioner's party DeSUS came to power in 2008. However, Borut Pahor's government was relatively short-lived as it fell after a vote of no-confidence in parliament (2011), which led to early elections. The mandate of this government coincided with the global economic crisis, whose effects unfolded also in Slovenia. The executive's attempt to circumvent the social partners in adopting new reform solutions failed and its proposals related to the pension system, labor relations and family affairs were rejected in three referendums held between 2011 and 2012 (cf. Državna Volilna Komisija 2013). In fact, the government was unable to guard any of its rebutted proposals⁷⁹, except for the arbitration agreement on the border dispute with Croatia, whose success cleared the way for

Croatia's EU bid. The policy proposals were not only rejected by the broader public but represented a sticking point among the coalition partners. First, the Democratic Pensioners' Party (DeSUS) left the government in May 2011, followed by Zares a month later. Other issues, such as unresolved corruption cases and newly emerging ones (cf. Fink-Hafner 2011) additionally afflicted the government's mandate, which was prematurely interrupted with the no-confidence vote. As a result, Pahor's Social-Democrats suffered a severe loss at the subsequent early parliamentary elections, winning only 10,5% of the vote (Annex II). The former Ljubljana mayor Zoran Janković's newly founded party Positive Slovenia (*Pozitivna Slovenija, PS*) won the election, but Janković was unable to form a government and thus, former Prime Minister Janez Janša returned to power, but only for a year (until March 2013) when PS together with SD and two other coalition partners assumed control and forged a new center-left government.

3.5 The Politics of Welfare

3.5.1 From Yugoslavia to the European Union (1990-2004)

Slovenia overcame the economic crisis associated with the collapse of Yugoslavia relatively quickly. Faced with the dilemma of how best to proceed under the new conditions, Slovenian decision-makers opted for a gradualist approach towards socio-economic transformation and rejected the alternative 'shock therapy'⁸⁰. Whilst the shock therapists, led by foreign advisors, advocated fast price and trade liberalization as well as prompt and massive privatization, the domestic gradualists argued for a steady transformation (cf. Mencinger 2004). The first approach appealed to the Peterle government as it concealed the possibility for swift replacement of the old communist elite. However, the numerousness and heterogeneity of the coalition partners contributed to their clashing over the issue. The approach was also disliked by the biggest trade union confederation, the Association of Free Trade Unions of Slovenia (*Zveze Svobodnih Sindikatov Slovenije, ZSSS*), which in 1991 organized a large civic rally against it (Grdešić 2006: 128). The coming of Drnovšek into power marked a victory for gradualism, and guaranteed by political continuity (until 2004), it soon became a Slovenian blueprint.

Gradualism was considered a "natural choice for Slovenia" (Šušteršič 2004: 402), bearing in mind the political constellation at the onset of the transition and the good economic starting point of the country. In the face of growing animosities in Yugoslavia, conflicting views regarding the

political and economic system and the future of the federation, the reformed communist elite and the new political actors in Slovenia were able to reach a consensus on fundamental political and economic issues. Moreover, mutual bargaining was embedded in the former socialist self-management where labor was an important component. It was neither in the workers' nor in the economic elite's interest to abruptly break with the past and risk losing the economic advantages that Slovenia had previously developed. By gradually adjusting to the new conditions, Slovenia chose to make the best of its legacy and avoid significant social suffering.

This approach worked for Slovenia which managed to achieve comparatively favorable macroeconomic indicators and in 2004 joined the EU as one of the economically most successful of the former communist countries. As a result of the steady transformation the state retained a large part in the economy mainly through majority ownership of the investment funds, banks, insurance companies, and other enterprises (Peternelj 2005), which would turn out to be a major source of contention in the period to come. On the one hand, the Slovenian model of transformation in the initial period hindered an economic capture by cronies of the ruling regime, which was the case in the other successor states (Boduszynski 2010: 134), but on the other hand, the model was criticized for slowing down economic progress (cf. World Bank 1999c; Šušteršič 2004; Peternelj 2005). In particular, the International Financial Institutions disapproved of the state's involvement in the economy and the amount of public spending. The European Union also raised concerns about possible public finance imbalances which came to the fore in the debate on pension system reform (cf. Novak and Rihar Bajuk 2007: 52).

In contrast, during this period there was a high degree of consent among domestic stakeholders regarding the pace and content of policy making. The strong sense of solidarity and public support to state intervention in the interest of decent living conditions for all, strong trade unions and social-democratic party scene, were all factors that worked in favor of feeding the welfare state (Fink-Hafner, interview). Fink-Hafner summarized that "roughly put, often the ideal was set that Slovenia should be like the Scandinavian countries, that is, capitalist, democratic, but welfare state" (Fink-Hafner, interview [my translation]).

The welfare system was put in the service of economic transformation. Generous publically financed programs of unemployment benefits, early retirement schemes and social assistance

provided the necessary social safety net for the population affected by the transition (Cvikl and Gaspari 2004: 193). During the first years of the nineties, the government introduced fiscal discipline through centralization of the social programs that had been managed on local levels, after which public expenditure stabilized at around 46 percent of GDP⁸¹. Its financing was enabled despite shrinking tax returns on social contributions, thanks to the recuperating economic situation and the strong revenue position of the government (Cvikl and Gaspari 2004: 195). Still, the improved and stabilized situation notwithstanding, Slovenian public finances came under scrutiny of the International Financial Institutions. In its 1999 report ‘Slovenia: Economic Transformation and EU Accession’, the World Bank criticized the country’s “high and rising social security expenditures, mainly pension and health expenditures, as well as [...] relatively high public sector wage increases in the early years of the transition” (World Bank 1999c: 1).

The main clash between international and domestic agents’ positions on this issue was played out in the arena of the *pension system*. At first, the Slovenian government embraced the World Bank and IMF proposals for a multi-pillar pension system⁸²; however, this was soon met with strong resistance from the trade unions, who feared that the introduction of a mandatory fully-funded pillar would jeopardize the scale of publicly provided pensions (Novak and Rihar Bajuk 2007: 50). Goran Lukić recapitulated the process as such:

“The World Bank, the IMF came here and made pressure for the adoption of a pillar on private pension insurance. All the countries from the neighborhood, like Hungary, there was some tension in Croatia, eventually gave in [...] In Slovenia the trade unions said to the government ‘No way’. We managed to reason with the government, given that then we received a first impulse by the public⁸³ to be able to halt certain things which were not good” (Lukić, interview [my translation]).

Whilst the trade unions were the main veto actors against the reform, other actors also opposed some of its solutions, such as the Minister of Finance, Mitja Gaspari, who was concerned with the effect that the reform may have over Slovenian fiscal position, or the oppositional Social-Democrats (ZLSD) who, inspired by the German Social Democrats’ position on the multi-pillar framework, went up against it (Stanovnik 2002). Some of the ruling coalition members’ ideas

found a way into the final version of the 1999 pension act, which in the light of the massive oppositional front opted⁸⁴ for parametric reforms and a supplementary funded pillar. Such was SLS's intervention for a state pension (Stanovnik 2002: 58). The subsequent governments continued working on expanding the scope of the supplementary pillar. The role of the trade unions again proved key, as the government's attempt to unilaterally impose its decisions ended being rejected by the Constitutional Court (2002) upon a public sector trade union's initiative (Guardiancich 2009: 196). As a result, the government changed its approach and following intense negotiations with the unions, a deal was struck, clearing the way for mandatory inclusion of public employees into the supplementary private pension scheme.

Changes in the *labor market* and its closely related policy areas were also undertaken in cooperation with the trade unions. The 2002 Employment Relationships Act was the outcome of almost seven years of negotiations between the government and the social partners (Guardiancich 2011a: 331). The Act came in response to the criticism about the costly and inflexible nature of the labor market, which gained prominence in the framework of the European Union accession process. Wage policies also came under the EU's magnifying glass (cf. European Commission 1997). Trade unions adopted a cooperative stance in this area and backed the government's flexicurity agenda, which encompassed legislative reform of the unemployment insurance scheme (1998), the minimum wage (1999), the social assistance scheme (2001) and the labor relations (2002). Novak and Rihar Bajuk argued that although these policy areas have previously been criticized by international agencies, like the OECD and the World Bank, it was the need for coming closer to EU standards that mainly contributed to pushing passive elements aside and putting greater emphasis on activation principles within Slovenian social policy (Novak and Rihar Bajuk 2007). Stanojević observed that in the process of negotiations the trade unions made these concessions expecting the government to accept their demands regarding the pension reform in return (Stanojević 2011: 129).

The *healthcare system* was subject to reform in the early transition. An important novelty was the introduction of a voluntary health insurance in addition to the mandatory health insurance, with the purpose of covering medical costs which were no longer fully resumed by public finances. The new scheme became an immediate success, as most of the mandatory insured also joined the voluntary insurance (Stanovnik 2002: 39). Interestingly, this change introducing

private elements to the healthcare system did not stir the amount of debate as the pension system did. Fink-Hafner explained that the adult population did not question the fact that an increasing portion of health services had to be paid out of pocket, because of the gradual transmission of the transition costs to the middle class, which was prepared for it, as well as the increase in living standards (Fink-Hafner, interview). Additionally, the trade unions did not stand against the supplementary insurance (Černak-Meglič, interview). In 2002, the issue of the voluntary insurance was put on the political agenda by the Ministry of Health. The Ministry suggested its abolishing, mainly due to its regressive nature which disproportionately affected lower-income households. The initiative was resisted by economic experts and the Ministry of Finance, who feared it might affect the public finances, as well as by employers who rejected the idea of increased contribution rates for the mandatory insurance as an alternative to the eliminated voluntary insurance (Albreht et al. 2009: 138). Thus, the idea which partly pervaded the mandate of the subsequent government was eventually dropped. At the same time, a loan arrangement with the World Bank was signed for the period 2000-2004, with the main purpose of revising the payment mechanisms and reimbursement models for health services and achieving more efficient and effective management of the system's financing and service provision (World Bank 1999b).

3.5.2 The Janša government (2004-2008)

Janša's government turned its back on gradualism and tried to introduce a new policy making style, related to both process and content. During this period, ideological differences that were hitherto less discernable between party blocks in government and opposition sharpened especially over economic matters. At the beginning of its mandate the new government announced a comprehensive package of economic reform compiled in a strategic document, also known as Slovenia's Development Strategy, which was supposed to be the national counterpart of the renewed Lisbon Strategy for Growth and Jobs⁸⁵. A series of detailed measures aimed at enhancing liberalization of the Slovenian economy and significant withdrawal of the state were proposed in order to increase economic competitiveness, achieve economic growth and higher employment. The strategy sought to redefine the "relationship between the economic effectiveness of the market and the social responsibility of the individuals and the partner-state" (Government of the Republic of Slovenia 2006: 17), which was qualitatively different from the

established paradigm. Given its neoliberal policies and the openly hostile attitude towards corporatism, the government soon collided with the social partners.

One of the first issues that sparked confrontation between the government and the unions was the proposal for replacement of the progressive tax system, which had been the basis of the Slovenian welfare state, with a *flat rate tax*. Trade unions reacted forcefully to the proposal, which they deemed unfair and inclined to produce higher income inequality, and took strong action against it. Despite severe weather conditions, around 50.000 people gathered in a protest in Ljubljana (Lukić, interview), which eventually caused the government to back away. Another touchy issue was the proposal for swifter *privatization*. The issue was a source of contention already within the government, leading to the resignation of the main creator of the reforms, Jože Damijan, from the ministerial post, who accused the government of “not being interested in a genuine withdrawal from the economy” (Gaube 2006). Indeed, in reality the idea for replacement of the state as a dominant owner turned into a project for elite replacement. Mencinger writes that the state investment funds “widely served as a major instrument for political meddling [and ...] have been thus used for replacing the members of the supervisory boards with members who belong to the ruling SDS and, to a lower extent, the ruling coalition partners” (Mencinger 2006: 18). The new ruling elite adapted to the public support for the traditional Slovenian model by gradual transfer of state resources into the ownership of new managers. The interviewed experts described the period as a start of ‘tycoonization’ of Slovenian economy, where banks with predominant state ownership enabled the new managers to seize the companies they ran in the name of the state (interview with Lukić, Stanojević, Kopač-Mrak, Černak-Meglič). The abandonment of the previously dominant social-democratic logic was disguised by use of populist concessions.

Slovenia’s Development Strategy foresaw further reforms of the *pension system* with the intention to keep people longer in employment, expand coverage over non-traditional employment contracts, increase participation in the supplementary pension schemes and ensure better economic sustainability of the first pension pillar, none of which eventually got to the political agenda. On the contrary, in 2005 the government introduced a full indexation of pensions to wages which was comparatively more favorable to the beneficiaries than the 80-20% wage-price indexation of 1999 (OECD 2009b: 132). The change happened as a post-electoral

horse-trading between DeSUS and SDS (Guardiancich 2009: 205). Independent of such populist steps associated with the maintenance of power, actions were taken to strengthen the governing elite's control over the management of pensions to the disadvantage of the social partners. The intention to isolate social partners' influence on welfare policies was recorded also in the area of labor market and healthcare policies through the government's meddling in the composition of relevant managing bodies.

In the area of *labor market and unemployment protection policies*, the government was able to legislate⁸⁶ its flexibilization policies and rebalance the composition of the Council of the Employment Service in its favor, much like in the case of the Pension and Disability Insurance Fund. During this period, a dramatic decrease of trade union membership occurred when the membership to the Chamber of Commerce and Industry was changed from 'obligatory' to 'voluntary' in 2006. This made the Chamber more radical and further obstructed social dialogue (Stanojević 2011: 122). Additionally, after Slovenia joined the Euro in 2007, growing inflation affected the employees' income. The membership to the European Monetary Union also restricted the country's ability for intervention through monetary policy. Thus, the unions at first agreed to a reduction of public expenditure⁸⁷ and to labor market flexibilization in support of curbing inflationary pressures and of spurring economic activity; however, soon after the signing of the 2007-2009 social pact, turned to a "more critical stance towards the national competitive policies based on the systematic wage restraint" (Stanojević 2011: 126). In 2007, a mass rally was organized in Ljubljana by all trade union confederations against the wage policies.

The accession to the Euro was reflected in *healthcare* policies too. In order to meet the Euro criteria, the government undertook measures to curtail the Health Insurance Institute's deficit and to subordinate its functioning to the available revenues. The ensuing alteration of the healthcare and health insurance legislation has been stricter on the financial operation of the public and voluntary health insurance institutes (Albreht et al. 2009: 141-3); however, the government was unsuccessful in completely assuming control and altering the composition of their assemblies to its advantage (Guardiancich 2011a: 336). Moreover, a public petition collecting 78.000 signatures against the minister's privatization policies (Černak-Meglič, interview), resulted in his replacement.

3.5.3 The Pahor government (2008-2012)

The timing of the new center-left government couldn't be more unfavorable. The global economic crisis provided an external shock to a covertly troubled economy. The collapse of entire sectors, such as construction and other related industries, unveiled serious problems in an economy dependent on public investment and not spared from politicized privatization. In a boomeranging effect, the process of elite replacement through provision of unsecured loans to new managers, which had started under the previous government's mandate, caused an explosion of company bankruptcies. As a result, workplace insecurity grew like never before. The revelation that some of the bankrupt companies had been circumventing their legal and financial obligations⁸⁸ further exacerbated the workers' precarious positions.

In reaction, discontented workers organized massive protests and the government responded with a series of measures to placate them. Company subsidies for preservation of workplaces, minimum wage increase, extension of the welfare provisions, were some of such measures (Bertelsmann Stiftung 2012c; Stanojević and Klarič 2013). Simultaneously, an ambitious reform program, known as Slovenian Exit Strategy 2010-2013, was devised as a national recovery plan. The strategy was to a great extent a response to EU pressure, as Slovenia's increasing public debt threatened colliding with the Euro convergence criteria. The government unsuccessfully hoped to be able to trade the minimum wage increase with gaining the unions' support for the reforms (Stanojević and Klarič 2013: 223-4). It soon encountered strong resistance from workers, who were unhappy with the disproportional shift of burden of the economic crisis onto them, while "tycoons, who got hold of a lot of money were not imprisoned, and the banks, albeit given guarantees and recapitalized, still clamp down on loan approvals" (Černak-Meglič, interview [my translation]). The confrontations were most prominent in the area of pension- and labor market reform.

The *pension reform*, somewhat modified, revived the idea of a multi-pillar framework to be introduced in 2015, with prior 'modernization' of the existing pension scheme (Government of the Republic of Slovenia 2010: 29). An impasse on fundamental issues, like the retirement age, pension qualifying period and indexation (Guardiancich 2011b: 15) contributed to a negotiations freeze, after which the government decided to proceed with the new legislation without the

support of the other social partners, but also some of the political partners. A referendum called upon by a ZSSS's initiative ended in a strong public rejection of the reform package, with 72,05% against it (Državna Volilna Komisija 2013), which along with other rejected reform initiatives, dealt a serious blow to the government's agenda.

The same day of the referendum on the Law on Pension and Disability Insurance, a referendum on the Law preventing Illegal Working was held (5 June 2011), and a few months earlier (10 April 2011) there was a referendum organized on the Mini-jobs Law. These two laws were part of the package reforms proposed for the *labor market regulation*, and like the pension reform they turned into a debacle: the Mini-jobs Law was rejected by 80,07% of the voters and the Law preventing Illegal Working by 75,41% (Državna Volilna Komisija 2013). Both these bills aimed at regulating student and undeclared work and increasing formal employment, in order to not only improve state revenue of social security contributions but also counter disloyal competition (cf. Government of the Republic of Slovenia 2010: 28). The Student Organization of Slovenia reacted severely to the stipulations of the mini-jobs act, fearing its negative repercussions over students' earnings, which had been an important source of study finance (ŠOS 2010), and first organized massive protests against the act, followed by the referendum initiative. Interestingly, a convincing public majority voted against the legalization of illicit work. Slovenians had been combining their official employment with unofficial work that has been enabling them to sustain a bearable subsistence level (Stanojević 2011: 132). Thus, the given law posed a potential threat of losing this income, which had already been put at risk by the labor market flexibilization (Ibid.). In addition, dissatisfied from all changes, trade unions stepped up action against further flexibilization of employment contracts, and no new version of the Employment Relationships Act was legislated, although the government prepared the ground for it through the new Labor Market Regulation Act (2010), providing eased access to the unemployment benefit and higher amount for the first three months of unemployment.

The *social protection system* was also adjusted to the interest for greater activation and less dependence on social transfers. The 2010 Minimum Wages Act increased the minimum wage in order to broaden the difference with the defined minimum subsistence level and provide higher work incentives (Stropnik 2011). Also, the increased social assistance benefit had a support

function for the process of integrating various social benefits that came into effect later in 2012 under the Social Protection Benefits Act.

In the area of *healthcare* the Pahor government moved away from the concept of privatization and promoted public provision of health services, albeit within the framework of available resources (cf. Government of the Republic of Slovenia 2010: 30). The new proposals which were elaborated in detail in a document 'Healthcare System Upgrade by 2020' and adopted by the government in February 2011 ended up in the drawer due to the early termination of the Pahor government's mandate.

3.6 Agency and Cleavage Structures: (Neo-)corporatist Approach

The Slovenian welfare system functioned in the context of the gradual transformation. It thus kept the features of a mixed conservative (Bismarckian) system and social-democratic (Beveridgian) system. The process of social policy making after the independence was to a great extent path-dependent and there has been a wide consensus on the preservation of the model already in place. Change could occur only as a result of negotiated (neo-)corporatist deals, and those who tried to unilaterally impose reforms failed. Following the initial crisis, an improved economic situation and solid social contribution collection enabled to retain the existing system. Impulses for reform, which came primarily from international agents, focused on financial sustainability, economic efficiency and introduction of private elements. However, they could not find fertile ground in Slovenia and have been resisted by the trade unions, which have emerged as a decisive factor in social policy shaping. The combination of well-organized social actors and consensus seeking political elites facilitated holding up a strong welfare state. Conversely, greater international interdependency, especially after joining the Euro, has, in times of crisis, made Slovenia more vulnerable and opened up possibilities for reexamining the existing model.

The Slovenian *party scene* has been divided between two main camps: 'old' parties, which have emerged from the former communist party structures and with predominantly center-left orientation, and 'new' parties, which have been established post independence and with predominantly center-right orientation (cf. Fink-Hafner 2006b). The parties belonging to the old, center-left camp have been the LDS, which was a successor party of the Socialist Youth League

of Slovenia, and the ZLSD as successors of the League of Communists of Slovenia, whilst the new, center-right party camp comprises the SDS, SKD, SLS, N.Si. For more than a decade, the power constellation on the Slovenian political scene has been in favor of the old, center-left bloc and this has facilitated a smooth transition. The Liberal-Democrats, as heirs of the most progressive and liberal structures under socialism, carried out democratizing reforms while providing elite continuity and co-opting some of the new political elements. This was possible mainly due to the absence of fundamental differences in the area of *socio-economic policies*. As discussed above, during the nineties a consensus was achieved on gradual transformation to market economy by keeping a dominant role of the state. Even the SDS, which in time became the strongest oppositional party, at first called itself social-democratic and changed its name to Slovenian Democratic Party after 2000, when it was also admitted to the family of the European People's Party (EPP). The SLS and the N.Si also joined the EPP in 2001. On the other hand, the LDS had been affiliated with the European Liberals since 1994, and the Social-Democrats (ZLSD, later SD) with the Party of European Socialists since 1996 (Fink-Hafner 2006b: 216).

Classifying a smaller number of other parties, which appeared during the transition, into the cluster of new, center-right parties is not that clear-cut. Most apparent is the example with DeSUS, a one-issue party, which has been part of both center-left and center-right governments. Its key role for the survival of ruling coalitions enabled it, at times, to often dictate the political agenda on pension reform, regardless of the ideological constellation in power.

Having said that socio-economic issues minimized party difference, the major distinction between left-center-right in Slovenia has been based on other cleavages. *Cultural cleavages*, reflecting value differences since before World War II and permeating through communism, have been most visible (cf. Zajc and Boh 2004; Fink-Hafner 2006b). While center-left parties have promoted secular values and acknowledged the role of the anti-Fascist communist resistance, center-right parties have condemned the communist regime and endorsed an increased role of the Catholic Church in public life. Unlike in the other former Yugoslav republics, ethnic and national cleavages in Slovenia have been unimportant, given the relative ethnic homogeneity of the country and the fact that these issues have been resolved at beginning of independence, by successful exclusion of former minorities (the Erased) and prompt closure of the state-building process. Furthermore, Euro-Atlantic integration has been a matter of wide political consensus.

After 2004, differences between the center-left and center-right parties became prominent regarding socio-economic matters too, as the SDS-led government advanced structural transformation and withdrawal of the state. Their policy proposals, which threatened the Slovenian social model, angered the social actors who mobilized the wider population and thus urged the government to moderate its agenda. During the transition, Slovenian society had preserved a high degree of equality and solidarity and was reluctant to give up the benefits of the established welfare system (cf. Fink-Hafner 2010). Some anecdotal evidence from the practice illustrates well how the high level of solidarity is a real obstacle to any attempts to reduce the role of the welfare state. Talking about the unemployment protection system, Anja Kopač-Mrak explained why stricter regulations would not work in Slovenia, even after their legislation.

“You have an unemployed person and if you are the employment counselor, you know that someone wants to avoid the system by working undeclared or whatever, and you have the means to penalize it, you have the means within the law, but you are not doing it because you think that it is really hard to be unemployed. [...] The problem is that, for example, eighty percent of employment counselors think that unemployment benefits are deserved and should not be touched..” (Kopač-Mrak, interview).

Thus, the path towards welfare state reform has proven especially thorny for any government that initiated it. As a result, the center-left government policies (2008-2012) were challenged by all possible means: protests, referenda and eventually electoral defeat.

The effects of the global financial crisis and the domestic economic problems came to the fore during the center-left Pahor government. Slovenia, which was the only country of the former Yugoslav republics to turn from ‘borrower’ to ‘contributor’ to the international financial institutions and the EU, has recently become financially vulnerable and is at the risk of seeking a bail-out. Until now Slovenia had been able to manage various *international agents’ pressures* for welfare system reform as part of their version for economic development through more efficient use of public resources. Only the European Union has successfully influenced certain welfare policy areas in the framework of the accession process. Flexibilization of labor market relations and an increased activation component during unemployment have been the outcomes of this policy transfer (cf. Novak and Rihar Bajuk 2007). As the global financial crisis snowballed into a

Eurozone crisis, the European Union responded with bailout packages, accompanied with austerity measures for countries unable to finance their government debt. Thus, when Slovenia's budget deficit and public debt reached risky levels for Eurozone standards, EU's exit strategies began to weigh on Slovenian decision-makers. Fink-Hafner comments that within the new circumstances "because of external pressures, all parties will be forced to, in practice, move to the right, that is from welfare state to liberalism" (Fink-Hafner, interview [my translation]).

The upholding of the Slovenian welfare model was thus far possible thanks to economical viability, prudent elites as well as strong *domestic actors*. In particular, Slovenian trade unions⁸⁹ gave direction to social policy development and any potential reform. Despite some initial splits⁹⁰ within the labor movement as a result of the post-communist pluralization, the trade unions have remained a force to be reckoned with. At the same time, the LDS governments positioned themselves cooperatively and actively negotiated various social and labor policy issues with the social partners. Ever since its establishment in 1994, the Economic and Social Council became the central institution in the framework of which, as discussed above, all key reforms in the area of pensions and labor relations were settled. However, since 2004 the honeymoon phase in the social partners' relations started to fade away. Their relationship became much more confrontational, and although the trade unions were eventually able to dilute the government's neoliberal policy proposals, the political conflicts nevertheless took its toll on the unions' membership (Stanojević and Klarič 2013: 222). Trade union density during the nineties was quite high in Slovenia with 66,5% in 1991 and 63,5% in 1994, while in 2003 the density rate was 43,7% and in 2008: 26,6% (Eurofound 2013). The negative economic trends following the introduction of the Euro continued to weaken the trade unions. Still, they have been able to hold their own and through wider public mobilization and use of institutional mechanisms (the referenda) deter unfavorable reform proposals which after 2008 started coming from all governments regardless of the affiliation. On the one hand, Slovenian institutional memory, comprising corporatism and high sense of solidarity, prevented a dramatic and one-sided change of the Slovenian welfare model, but on the other hand, continuous external pressure started posing a serious threat to shift the balance of power in the interest of global austerity trends⁹¹.

Also, some domestic features complemented the belated external pressure challenging Slovenia's welfare blueprint. Generally, Slovenian society preserved its equality traits and avoided large poverty traps which landmarked other post-socialist countries. The gradual and painless transformation prevented the classical division of the population into transitional 'winners' and 'losers'. Corruption as a phenomenon, which had penetrated other transitional societies was low in Slovenia. For years the country has had favorable rankings on anti-corruption matters and also relatively low percent of Slovenians (less than 30%) have found corruption to be a big problem (Fink-Hafner 2010). Although the country's elite has not been immune to corruption, viable democratic mechanisms have helped control it, not least through elections. Yet, the recent global financial crisis revealed some negative consequences of elite power struggles. Irresponsible granting of bad loans by state owned banks to government's supporters induced a national financial crisis and exposed covert clientelist relations, which forced Slovenia to now deal with the imperative of long postponed structural reforms. Over a longer period of time the country has been criticized over its lack of progress with enterprise restructuring and the sizeable state involvement (cf. EBRD 2010b), but given the constellation of urgency and fiscal consolidation coercion, the question is at what cost to the existing corporatist, social-democratic political economy would reforms now take place.

4 Croatia

The act of leaving the last (14th) Congress of the League of Communists of Yugoslavia by the Croatian and Slovenian party delegations marked the beginning of Yugoslavia's break-up. After the first multi-party elections (1990), the adoption of a new constitution (1990) and organization of an independence referendum (1991), Croatia seceded from the federation. The independence proclamation was postponed for three months because of pressure from the EU (Ramet 2011: 530), following tensions between the Yugoslav National Army and Slovenia and Croatia. Historic antagonisms between Croats and Serbs culminated in war, which broke out with the deployment of YNA on Croatian territory in order to back Serb rebels in the region of Krajina. UN brokered ceasefire was agreed in 1992; however, Croatian authorities still lacked full control over the whole sovereign territory. Nevertheless, Croatia was admitted to UN membership (1992) and recognized by the EU, in spite of a rather reserved opinion of the EU's Arbitration Commission of the Peace Conference on the Former Yugoslavia (the Badinter Commission) regarding the necessary preconditions for Croatia's international recognition as an independent state. Following the withdrawal of the YNA, the war ended in Croatia's favor (1995). Croatian forces retaliated by expelling a large majority of the ethnic Serb population. As a result of the war more than 300.000 people were forced out of the country (Zakošek 2002: 13), which also significantly affected the population's demographic structure⁹². Between 1992 and 1994, Croatia became entangled in the war in Bosnia and Herzegovina in the role of an aggressor.

Towards the end of the nineties, the desire for Euro-Atlantic integration became a key component of Croatia's strategy for the future (cf. Bartlett 2003: 5). Nevertheless, the EU stalled inviting Croatia to join, because of concerns related to its authoritarian tendencies. The 2000 regime replacement marked the beginning of a new chapter in the country's transition. In 2009 Croatia was admitted to NATO, and in 2011 the accession negotiations with the EU were finalized. Along the way, the country had to overcome two bigger stumbling blocks, one concerning the cooperation with The Hague⁹³ tribunal and the other - over relations with its neighbor Slovenia, which was already an EU member.

Along the lines of the accession criteria, politically Croatia had set to establish a functional democracy, rule of law and respect for human and minority rights, and in economic sense – a

functioning market economy. The achievement of both objectives was threatened by the circumstances underpinning Croatia's transition, such as the war and its consequences, authoritarian tendencies, discriminatory practices, corruption and elite capture. Over time, Croatia has been able to move away from the concept of defective democracy towards a democratizing state (cf. Bertelsmann Stiftung 2014). Defects particularly surfaced during the recent crisis, but so did the bottom-up and external pressures for dealing with them.

4.1 Economic Development

Croatia was one of the most developed republics in former Yugoslavia. The 1970s crisis affected its economic performance. In particular at the onset of the transition the economy suffered a sharp decline. Its GDP displayed negative digits up to 1993. After the first shocks the economy started recovering, and apart from a negative growth rate of -0,9 in 1999, there has been positive economic development since 1993. In 2006 Croatia finally surpassed the 1989 level of GDP (EBRD 2010a). In 2009 its GDP per capita was 14.241 USD.

The war which raged on Croatian territory caused substantial material damage, casualties, and displacement of large numbers of people. The financing of government military operations and other war related expenditures caused unprecedented fall in the purchasing value of money. In 1993 the Government adopted a stabilization program with the main purpose to curb the inflation. With the help of restrictive monetary and fiscal policies the inflation was brought under control and has been stable since, however at the expense of some social programs. For instance, pensions ceased to be adjusted to wages as prescribed by the applicable legislation, which caused the so-called "pensioners' debt".

The anti-inflationary recovery was combined with adverse balance of payments. While imports started flowing freely, Croatian exports picked up more slowly. They were additionally affected by the strictly managed floating exchange rate of the Croatian kuna (HRK), which underpinned the stabilization program and weakened the competitiveness of Croatian production. Part of the current account deficit was covered through net FDI inflow, while a larger part was financed by foreign borrowing (Jurlina-Alibegović et al. 2006: 2).

State-led investments in infrastructure stimulated the economic progress of the second transitional decade, and at the same time contributing to the increase of foreign indebtedness. The International Monetary Fund has been an important source of lending to Croatian governments. The IMF has not been a simple passive lender, but interfered in the resizing and restructuring of public expenditure. This has affected social spending too. Croatian general government spending is commonly regarded as relatively high, raising the public debt up to 38,2% of GDP in 2005 (Croatian National Bank 2011). Although after this year the public debt decreased, this has not been the case for the external debt, which in 2009 reached 95% of the GDP.

Public expenditure on social benefits and programs between 1997 and 2004 was slightly above 20% of GDP, it then dropped to 17,5% in 2007 and reached the level of 19% in 2008 (Bejaković 2011). In that sense, Croatia has been a relatively high spender in this area as well⁹⁴. Most of the social expenditure goes to pension benefits, followed by expenditure on healthcare. Much less is allocated to unemployment or other social protection benefits.

4.2 Changes to the Welfare System

4.2.1 Pension system

Croatia inherited a pension insurance system which was built upon the “Bismarckian” tradition, meaning that the contributions by the current working generations are used to guarantee the income security of the previous generations in their old age.

The war, economic recession and demographic trends seriously undermined the pension system. Unemployment was on the rise which cost the system a large contribution base. Additionally, when firms or institutions and other legal entities employed homeland war veterans or disabled persons, they were relieved from paying contributions. There were other cases, in particular in large state-owned enterprises, when this evasion was simply tolerated. The non-transparent privatization process provided for transformation of the ownership structure, without settling the contribution debt (Bejaković 2004: 99). A mismatch existed between legal provisions and economic reality. The pension system started absorbing the redundant workers who had to exit the labor market as a result of firms’ economic collapse and privatization. Furthermore, the war

boosted the number of people claiming a certain pension or disability benefit, such as refugees, invalids of war, surviving family members of combatants killed in war, war veterans. These categories qualified for benefits in part under the existing legislation and in part owing to newly introduced legislation. Finally, demographic trends were unfavorable, as shrinking fertility rates could not complement growing life expectancy. The share of people over 65 years of age in the total population was 11,9% in 1991, 15,7% in 2001 and 17,3% in 2009 (Croatian Bureau of Statistics 2012).

These developments contributed to the worsening of the *contributor to pensioner ratio*. While at the beginning of the '80s there were four active insured persons to one pensioner, in 2010 the number of active insured persons practically equaled the number of beneficiaries. Also in absolute terms, the number of beneficiaries more than doubled from 449.080 in 1980 to 1.187.050 in 2010 (HZMO 2012).

4.2.1.1 Financing

The pension system is financed mainly through *contributions*. In case of financial shortages the state uses part of *tax revenues* to intervene. In time, the share of state's financial interference has been increasing. The *contribution rate* has been subject to change. In 2003 the contribution rate stabilized at 20% of gross wages. Since then, related to structural reforms, the contribution rate has been divided between the first, public, pay-as-you-go pillar (15%) and the second, private, mandatory defined contribution pillar (5%). In the previous decade, the contribution rate often changed, but was mainly in values above 20%.

Revenues coming from contributions have been uneven. Revenues improved with the improvement of the economic situation and reduction of the number of unemployed. A lowered contribution rate and partial redirection of contributions to individual savings accounts caused a revenue shortfall. After this, revenues started picking up. According to Jurlina-Alibegović et al. (2006: 114), one of the reasons for this was that the introduction of personal pension accounts under the second pillar influenced better discipline in paying contributions. Contribution evasion has been a major problem. Following an important accounting change introduced in July 2001, contributions for the public pillar were no longer paid into the account of the Croatian Pension Insurance Institute (CPII), but landed directly in the state treasury. Thus, the tax authority

became the central authority responsible also for collection of contributions, as well as control and enforcement. Bejaković (2004) observed a number of impediments to efficient operation, such as overlapping functions of multiple administrative bodies, replication in collecting data, legal inconsistencies, and discriminatory protection of state-owned enterprises.

It goes without saying that the drastic expansion of the number of beneficiaries inflated the *expenditures*. Revenues from contributions could not cover the necessary costs and therefore the amount of transfers from the state budget in the financing of pensions has been going up. The proportion of the general budget participation in the expenditures of the pension system boosted from 9,4% (1996) to 54,41% (2002) (Bejaković 2011:64). Afterwards, as the contribution base started improving, this figure started dropping. Nevertheless, this trend was modest and relatively short-lived. Most recent data by the CPII shows that in 2010 the general budget share in the financing of the pension system was a bit less than half of the total expenditure: 46,26%. This is largely related to the steady growth of the number of beneficiaries, as well as the level of merit pensions. It is the state budget's responsibility to cover the costs for merit pensions, 'old' pensioners' debt, supplements to 'new' pensioners, subsidies for farmers, priests, independent artists and lastly second pillar transition costs, as I demonstrate henceforth. The numbers thus become non-negligible. Generally, most of the social spending is used up by the pension system. On average, Croatia has been spending 11,5% of its GDP on pensions (see Table 10)⁹⁵.

Table 10 Croatia - total pension expenditure, % of GDP (1995-2008)

Year	95	96	97	98	99	00	01	02	03	04	05	06	07	08
	8,5	9,2	10,6	11,3	12,9	12,8	13,5	12,7	12,2	11,8	11,5	11,3	10,8	11,6

Source: Bejaković 2011: 88.

4.2.1.2 Coverage

Pension coverage in Croatia is broad and applies to *all employees, self-employed persons and farmers*⁹⁶. These categories are principal, although the pension insurance act foresees various other categories. Given the expansion of new forms of employment, such as temporary contracts

and atypical self-employment, in 2002⁹⁷ they were also included in the pension insurance scheme.

Next to regular insurance, there are specific cases which intervene in the pension qualifying period, like *purchase of missing insurance periods*, *extended insurance* and *privileged insurance*⁹⁸. Upon the reform⁹⁹ buy-outs of missing insurance periods were given only to priests for their periods of service before 1999. The practice of buying-out periods of insurance for workers was discontinued previously, under the 1995 Labor Code (Guardiancich 2009: 53). A possibility for extended insurance of persons whose mandatory insurance has terminated exists. It can be used to avoid discontinuity of the insurance coverage. This option is at the disposal of persons who are on unpaid leave, caring for a child under the age of three, attending vocational training after cessation of employment/service or self-employment, having temporary or seasonal break from work, migrant workers and their spouses, the unemployed, and sailors after cessation of their temporary employment contract. Finally, privileged insurance involves calculating a longer insurance period than the one effectively spent and is reserved for certain professions, like various hazardous occupations, police, judiciary, customs officers and others.

Following the 1998 reform the *eligibility criteria* were tightened. The retirement age was cumulatively raised from 60 years of age to 65 for men and from 55 years of age to 60 for women with at least 15 years of insurance. The possibility to claim an old-age pension on the basis of the years of insurance, regardless of the actual age was abolished. Early retirement was also lifted from 55/50 years of age to 60/55 for men/women, with 35/30 years of insurance respectively. The raise of the retirement age for both regular and early retirement was introduced gradually on an annual basis with the intention to reach the prescribed level in 2008.

Requirements for gaining access to disability pension were also made stricter (Puljiz et al. 2008: 104). In addition to general invalidity, the category of professional disability was introduced, allowing persons incapacitated for certain jobs to stay in the labor market and perform duties adjusted to their skills. Such persons are redirected into professional rehabilitation instead of being directly granted a disability retirement benefit.

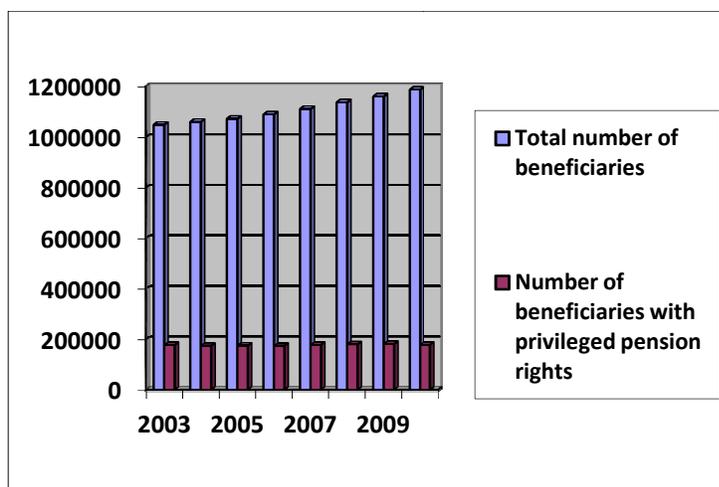
The disparity in eligibility criteria based on gender was removed in 2010¹⁰⁰ when the retirement age for women started to move up gradually with the intention to reach the level of 65 years of age for regular, i.e. 60 for early retirement in 2030.

People who do not fulfill the abovementioned criteria, or who otherwise do not qualify for survivor's pension through a family member, remain outside of the system. The exact number is unknown, but it is estimated that around 12-13% of 64+ persons do not have any pension income (Bejaković 2011: 62). A simple calculation comparing the CPII data on the number pension beneficiaries and the population census data on the number of persons above the age of 65 is in line with this finding.

4.2.1.3 Benefits

The three main types of pension benefits awarded are *old-age pension*, *disability pension* and *family (survivor) pension*. Some benefits which were in place as a result of the ex-Yugoslav provisions have been abolished with the 1998 reform or moved to the social protection system (Puljiz et al. 2008: 104). Conversely, inherited privileged pension rights or granted during the first years of independence have remained. *Privileged (merit) pensions* are reserved for: participants in the liberation war (1941-1945), members of the former Yugoslav army, former political prisoners, Croatian Homeland War veterans (1990-1996), police and judiciary, parliamentary representatives and members of the Croatian Academy of Sciences and Arts. The figure below shows that the proportion of privileged pensions in the total number of beneficiaries is not insignificant with around 15%.

Figure 6 Croatia – number of pension beneficiaries (2003-2010)



Source: HZMO 2012 (Croatian Pension Insurance Institute).

Apart from the considerable size of these privileged pension beneficiaries, it is important to consider the level of their benefits, which is substantially incommensurate with that of other beneficiaries. Their *replacement rate*, i.e. share of average pension benefit in average net salary, in 2002 ranged from 43% for the pensions of the WWII Home Guard veterans to 206,6% for the parliamentary representatives (Bejaković 2004: 63). In 2009 these numbers were somewhat smaller – from 41,22% to 173,84% for the same categories (Bejaković 2011: 66). The replacement rate of the pensions of Croatian Homeland War veterans was 135,5% (2002) and 105,14% (2009). In 2010¹⁰¹ merit pensions were reduced by 10 percent, but the reduction could not be more than 3.500 HRK. Invalids of war from the Homeland war and the other invalids with 100% incapacitation were exempt from the reduction.

Comparatively, the general replacement rate has been lower and in constant decline. It was above 60% (1991-1993) and then dropped to around 46% (1995-1998). Its lowest level was in 2000 with only 37,6%. Henceforth, it has been a little above 40% (Bejaković 2011: 65).

The replacement rate is closely linked to the *calculation of benefits*. The 1998 reform altered the pension benefit calculation formula according to a point formula, gradually widened the calculation period from 10 best consecutive years to full career and introduced a mixed wage-price indexation¹⁰². Surely, one of the main goals of the reform was to curb the rampant growth of pension expenditures, by restricting access to the system, through changes in eligibility criteria, and by reducing the level of benefits.

Three important interventions have interfered with this design:

- 1) The first intervention has to do with the 1998 Croatian Constitutional Court ruling in favor of the pensioners' associations, which challenged the government's 1993 stabilization program with regard to pensions. The pensioners contested the singlehanded government decision to move from wage to price indexing of benefits, which caused their levels to drop. Another claim was connected to the non-payment of the merit pensions. The Court's decision obligated the state to settle the debt towards the pensioners. As a result, the budget was tailored to implement the decision and concrete measures were targeted at the debt restitution¹⁰³. The debt was finally paid off in 2007 with the last restitutions made to the previously excluded survivor and maximum pension beneficiaries (Guardiancich 2007: 137).
- 2) The second intervention in the system is related to the mounting discrepancy between the so called 'old' and 'new' pensioners. To be exact, apparent differences in the levels of benefits paid before and after 1998 have become visible. According to Puljiz et al. (2008: 97-8), the imbalance was caused by the new formula of calculation of benefits and the incoming new pensioners: farmers and persons who gained their pension based on bilateral agreements between Croatia and other states of the former Yugoslavia, who lowered the average benefit. In light of upcoming elections, the issue gained in salience (Guardiancich 2009: 76). In 2007¹⁰⁴ supplements ranging from 4 to 27 percent were granted to persons who retired after 1999. Some categories are excluded from the right to supplement, such as beneficiaries of merit pensions, maximum pensions, basic pensions, and family pensions based on pensions acquired under legal stipulations valid until 31.12.1998. As of 2012¹⁰⁵ the supplement would no longer be paid as addendum to the pension benefit, but becomes an integral part of it.
- 3) Lastly, 2010 legislative changes¹⁰⁶ enabled the insured persons between 40-50 years of age who in 2002 opted for entering the second pillar to now exit it and acquire pensions as if they had remained in the public pay-as-you-go system. In that case the privately managed funds transfer the individual savings to the state budget. This intervention affected around 1.200 pensioners who had worked in low-paying sectors and who retired

early after only six years of saving in the second pillar, and therefore received extremely low benefits – around hundred kunas (Matković 2011). Despite good performance, second pillar funds did not provide for satisfactory returns, as a result of the short period of contribution, low contribution rate, high administrative costs and minimum investment limits (Guardiancich 2009: 71; Banka i Institut za javne financije 2011).

Table 11 Croatia – ‘old’ and ‘new’ pension beneficiaries (2010)

Amount of pension benefits (in kunas)	Old pensioners – right to benefit acquired until 31.12.1998		New pensioners – right to benefit acquired as of 1.01.1999	
	Number of beneficiaries	Average amount of pension benefit	Number of beneficiaries	Average amount of pension benefit
- 500,00	18.160	272,86	61.088	238,42
500,01 - 1.000,00	45.254	709,89	56.207	796,86
1.000,01 - 1.500,00	32.387	1.264,11	102.091	1.273,21
1.500,01 - 2.000,00	132.648	1.823,96	120.207	1.750,08
2.000,01 - 3.000,00	177.196	2.474,36	132.701	2.412,29
3.000,01 - 4.000,00	98.672	3.413,56	55.855	3.435,99
4.000,01 - 5.000,00	29.317	4.406,68	21.407	4.412,29
5.000,01 - 6.000,00	9.607	5.416,31	7.668	5.418,71
6.000,01 - 7.000,00	4.082	6.398,63	3.343	6.453,03
7.000,01 - 8.000,00	1.089	7.173,69	1.843	7.447,06
+ 8.000,00	125	9.049,88	1.406	8.956,36
Total	548.537	2.390,95	563.816	1.943,40

Source: HZMO 2012 (statistical data for December 2010). The data is sum of old-age, disability and family pensions. It does not include the pensions for Croatian homeland war veterans.

The Croatian pension system guarantees a minimum pension benefit and foresees a basic pension benefit. The *minimum pension* is secured only for the pension beneficiaries in the first pillar. Following two readings in Parliament, the legislator set the minimum pension at 0,825 percent of the average 1998 gross salary of all employees for each year of insurance. The effects of such a favorable formula were threefold: high number of new beneficiaries which qualified for this pension, stark redistribution in favor of pensioners with below average income, and contribution evasion (Puljiz et al. 2008: 94). Thus defined minimum pension contributed to making the level of pension benefit independent from the level of one's income, i.e. the contributions paid during one's working age. The fact that more than half of the new pension beneficiaries in the period from 1999 to 2003 were receivers of minimum pension speaks in favor of this. As a result there was a lofty incentive for contribution evasion. After minor restrictions¹⁰⁷ in the conditions for minimum pensions, in 2007¹⁰⁸ the old definition was reintroduced.

The *basic pension* offers basic form of security to pension beneficiaries who participate in both pillars. Basic pensions are calculated less favorably than minimum pensions. Considering the fact that recipients of basic pension are exempt from the right to supplement, their design contributes to even higher inequality in the system.

The Croatian pension system also foresees a *maximum pension benefit*¹⁰⁹. It applies only to the participants in the first pillar. Privileged pensioners, namely the Croatian Home Land War defenders and their families, and members of parliament, are privileged also in this sense, as their pension benefit is up to the amount of two maximum pensions determined for 40 years of insurance.

Also among the recipients of minimum pensions there are differences depending on the date of retirement. Beneficiaries who acquired their pension rights under the legislation valid until 31.12.1998 in December 2010 received a minimum pension of 2.404,17 HRK on average, while beneficiaries falling under the new legislation that same month had access to 1.336,39 HRK. For the recipients of maximum pension benefits the numbers were 6.312,34 HRK for the 'old' and 4.492,97 for the 'new'.

Upon the introduction of the multi-pillar framework, *disability and survivors pensions* have remained a sole responsibility of the first pillar. Individuals who participate in both pillars have the right to draw the higher of the two benefits: either the regular pay-as-you-go benefit or a combined basic pension and annuity.

4.2.1.4 Structure

Croatia had inherited a pension system built upon the principles of intergenerational solidarity. A three-pillar pension reform concept was first announced in 1995 at a conference in Opatija, organized jointly by the Croatian Government, the World Bank and the EastWest Institute. The new model was proposed as an exit strategy from the financing crisis of the public pay-as-you-go scheme, with the intention of achieving long-run sustainability of the pension system (Anusic et al. 2003). The 1998 pension insurance act announced the changes, which came into effect three years later. The new system is based on three pillars:

- *Mandatory public pay-as-you-go pillar* – the public pension scheme which rests upon the principles of reciprocity and solidarity is now part of the new mixed pension system. All insured persons, as defined by the pension insurance act¹¹⁰, participate in the public scheme. 15 percent of the 20 percent contribution rate on gross wages is paid into this pillar;
- *Mandatory fully funded pillar*¹¹¹ – this scheme is based on individualized capitalized savings. The scheme depends on the returns on investments to achieve stability and future benefit payments to pensioners. At the time of introduction it was mandatory for persons under the age of 40. Those aged between 40 and 50 could opt either to remain fully in the public scheme or to divert part of their contributions to one of the emerging privately managed pension funds. The insured under both pillars contribute 5 percent of their total contribution to these second pillar funds. Those who opted to remain solely in the first pillar, as well as persons older than 50, contribute the entire 20 percent contribution rate to the public fund.
- *Voluntary savings pillar* – this pillar operates on the same principles as the second pillar, except that it is open to all adult Croatian residents on voluntary basis, who also decide

on the amount of the contribution rate they pay in the privately managed funds. Assets from the voluntary scheme may be withdrawn already with 50 years of age. In addition to private pension companies, trade unions and employers may establish third pillar funds. State subsidy and tax deductions are in place for this pillar.

Until the reform pension and disability insurance in Croatia was managed by three public institutes: for workers, self-employed and for farmers. Following the reform they were merged into the Croatian Pension Insurance Institute. The second pillar mandatory funds and the third pillar voluntary funds are private entities, which are supervised by the state Agency for Supervision of Pension Funds and Insurance (HAGENA) that has lately been transformed into an Agency for Supervision of Financial Services (HANFA). A Central Registry of Insured Persons (REGOS) was founded to collect data and maintain the system of capitalized savings. Four mandatory privately managed pension funds have been operational since 2001. There are six voluntary pension funds and fifteen of closed nature (HANFA 2012). In 2011 there were 1.572.162 members of the mandatory pension funds, 174.440 members of the voluntary pension funds and 17.666 in the voluntary funds of closed nature.

4.2.2 Healthcare system

The Croatian healthcare system rests upon the Bismarckian social insurance principle and guarantees universal healthcare protection. Private practice and private financial participation of patients was known, but insignificant. The period of transition witnessed an upsurge in private sector's involvement, by means of private medical practice, private insurance or patients' out-of-pocket payments.

4.2.2.1 Financing

Salary *contributions* are the primary source of funding and financial shortages are covered by tax revenues. Similarly like the pension system, at the onset of the transition, the Croatian healthcare system came under serious pressure as a result of the war and the economic recession. Nevertheless, in the first decade of transition, collected revenues topped expenditures. According to Zrinščak, the overall healthcare costs fell in 1993 and 1994 as a result of tightened expenditure and the decision to exclude amortization costs from the bookkeeping (Puljiz et al. 2008: 133).

One could say that such policies fitted the general government's restrictive monetary and fiscal policies under the framework of the 1993 stabilization program. In the second decade of transition both revenues and expenditures grew. Improved fiscal discipline, partly owing to the centralization of the collection of contributions after 2001, expanded the revenues base (Bejaković 2011: 73). However, expenditures have also been on the rise. For instance, in 1995, revenues amounted to 7.828 million HRK and expenditures – 7.777 million HRK, while in 2008 the amounts were as follows: 20.143 and 20.308 million HRK for the revenues and expenditures respectively (Bejaković 2011: 72).

The *contribution rate* was frequently changed. In the period 1990-1994 the contribution rate was 15% of gross wages, afterwards it varied between 14%, 18% and 16%, and since 2003 has been fixed at 15% again plus a special contribution of 0,5% for insurance against injury incurred in the workplace and professional illness of employees (Bejaković 2011: 72). As of that year, the contribution rate is fully borne by the employer.

Contributions were collected by the Croatian Institute for Health Insurance (CIHI). Following an important accounting change starting from 2002, contributions are directly paid into the state treasury, which then transfers these funds along with funds from the general taxation to the CIHI (Bejaković 2011: 67; Puljiz et al. 2008: 145). The contributions account for around 80% of the total funds allocated to healthcare (cf. HZZO 2011: 27). The CIHI is responsible for dispensing these funds to the healthcare service providers, either public or private, based on annual contracts.

Most of the *expenditure* is allocated to hospital care, with around 30% of total expenditures, then to pharmaceuticals, primary and secondary healthcare with around 15% each (Puljiz et al. 2008: 149). The proportion of GDP spent on health has on average been 7,07%. Zrinščak argues that GDP growth, hospital arrears, benefit restrictions or inability to secure them in practice and reassignment of some competences to another Ministry¹¹² have contributed to the lowering of the participation rate of healthcare expenditure in the GDP (Puljiz et al. 2008: 147). Out of the total spending on healthcare, most of it comes from public sources. Public health expenditure has been above 80% of total health expenditure throughout the entire past period.

Table 12 Croatia - total health expenditure (public and private), % of GDP (1995-2010)

Year	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
	6,86	7,12	5,88	6,68	7,34	7,76	7,24	6,28	6,44	6,66	7	7,04	7,54	7,8	7,8	7,82

Source: World Health Organization Regional Office for Europe 2012 *Estimates produced by WHO, including both nationally reported data and estimates from other international organizations like IMF, WB, UN and OECD.

Private financing comes from four different sources: private health insurance, patients' co-payments to health-service providers contracted by CIHI for services not covered or not covered fully by the mandatory health insurance, patients' out-of-pocket payments to privately owned providers which are not contracted by CIHI and patients' informal payments. Private expenditure on health has been less than 20% of the total expenditure on health.

Table 13 Croatia - public/private healthcare expenditure (% in total healthcare expenditure) (2000-2010)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public*	86,1	83,3	80	82,6	81,1	86	86,1	87	84,9	84,9	84,9
Private	13,9	16,7	20	17,4	18,9	14	13,9	13	15,1	15,1	15,1

Source: World Bank 2012 *Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowing and grants (including donations from international agencies and nongovernmental organizations, and social (or compulsory health insurance funds).

In addition to the *mandatory health insurance*, the Croatian healthcare system envisages a possibility for *voluntary complementary health insurance*¹¹³, which is organized into: a) supplementary insurance that enables coverage of the full costs of the healthcare service, which may not be fully covered by the mandatory insurance; b) additional insurance providing higher standard of healthcare, by covering the costs beyond the scope of mandatory insurance; and c) private health insurance which is open to persons who do not qualify for mandatory insurance. Even before defining the voluntary health insurance with a separate act, complementary insurance which would take the difference up to the full costs of the healthcare service existed under the previous legislation (Puljiz et al. 2008). Prior to 2002, individuals with annual income

over a certain limit were allowed to opt out from the mandatory health insurance system and to get insured only with private insurers. The 2002 Healthcare Act prohibited opt-outs and confined the benefits of private insurers' schemes to benefits providing higher standard in health service, better quality, and faster access (Jurlina-Alibegović et al. 2006: 143). Until 2004 complementary insurance was offered exclusively by the Croatian Institute for Health Insurance (Jurlina-Alibegović et al. 2006: 145) and after that also by private providers. It plays a marginal role, with an estimated 6% of total health expenditure (Jurlina-Alibegović et al. 2006: 143).

4.2.2.2 Coverage

Health insurance in Croatia proclaims *universal coverage* to all persons residing in Croatia who are insured on one of the basis laid down in the law¹¹⁴ and to foreigners residing permanently in Croatia if an international agreement on social insurance does not stipulate otherwise. The bases of insurance are broad and apply to all employees, self-employed persons, farmers, pension and professional rehabilitation beneficiaries, foreign pension and disability beneficiaries residing in Croatia, unemployed persons registering with the Employment Institute, and various other categories. Members of the family of the insured persons are also included in the mandatory health insurance scheme. These are the spouse or non-marital partner and children, parents, grandchildren, brothers, sisters and grandparents who are dependent on the insured person. Thus defined, the system guarantees close to 100% coverage. For instance, in 2009 Croatia had a population of 4.429.000 inhabitants (Croatian Bureau of Statistics 2011) and 4.343.476 insured persons (HZZO 2011), meaning that 85.524 persons (around 2%) were outside of the public health insurance. The lack of full coverage is attributed to failure to meet the deadlines in which residents have to apply for mandatory insurance in situations such as after losing employment, graduating from school or university (Bejaković 2011; Jurlina-Alibegović et al. 2006).

Despite the universally proclaimed healthcare coverage, it is not available to everyone under the same conditions. Financial contractions to the basic health insurance package, introduction of cost-sharing, the rise of the private medical sector have challenged the public provision of healthcare. This has disproportionately affected different social groups. In particular the socio-economic background, the area of residence, and other factors like age, gender, ethnicity, citizenship, contribute to the unequal access to healthcare services and stimulate exclusion

(MZSS 2011b). A study by Mastilica and Božikov (1999) has shown that 65,5% of the respondents have significant out-of-pocket payments, while only 5,7% do not have any direct expenses. Low income groups are incommensurately affected in two ways: they are more likely to pay for private medical care, drugs, give gratitude money or gifts to the medical personnel and receive salary reduction because of sick leave; and they spend a higher share of their income on such out-of-pocket healthcare expenditure. Another study has further shown that significant inequalities exist between different social groups in self-reported health status. More than half of people with high income (57,3%) report excellent health-status, while people with low income level are on the other end: more than half of them (51,1%) report a poor health status (Mastilica and Kušec 2005).

4.2.2.3 Benefits

There are two main types of benefits available to the insured person: *healthcare benefits* and *cash allowances*¹¹⁵. Healthcare benefits include access to primary, secondary and hospital healthcare, list of pharmaceuticals defined by the CIHI, dental prosthetic care and orthopedic supplies. Within these categories benefits are provided up to a certain percentage of the total cost. The rest is covered through patients' co-payments or through premiums of the voluntary complementary insurance. Certain categories were exempt from co-payments, who, after certain restrictions under the new regulations¹¹⁶ were brought under the supplementary insurance, in their case financed by the state.

Cash allowances consist of salary compensation in case of temporary inability to work, cash compensation in case of inability to do work which is otherwise compensated (injury/sickness benefit, maternity/paternity benefits and other cases) and compensation of travel expenses related to the use of healthcare under the mandatory insurance.

In theory there has been a tendency to continuously restrict benefits over time, either by lowering the number of benefits guaranteed or by raising the financial expectations from individual beneficiaries. More and more services require co-payments. The proportion of co-payments in the entire cost of the healthcare service has been expanding, and less beneficiaries are exempt from this obligation. In absolute terms, however, the expenses on healthcare have not shrunk, as

was demonstrated above in the section on financing. It was exactly these contradictions which triggered the reform processes.

4.2.2.4 Structure

The basic structure of the system has been preserved, consisting of the three main levels of *primary, secondary and tertiary healthcare*. The *1993 reform* centralized the previously decentralized funds collection system and changed the ownership structure of the medical institutions. The Croatian Institute for Health Insurance was established as a central management and financial institution. Voluntary supplementary insurance was introduced but had a marginal role at the beginning. Medical institutions were nationalized: the state became the owner of tertiary healthcare institutions (state medical institutes, clinical hospitals and clinical centers) and the municipalities gained ownership over medical institutions from the primary or secondary healthcare. The reform set the stage also for the entrance of private capital. Privatization took mainly the form of ownership transformation of already existing capacities. It was done primarily in the primary healthcare sector through the lease of space in existing medical institutions and their transformation into private practice by physicians previously employed there. Around 80% of primary healthcare practices operate in leased facilities (Jurlina-Alibegović et al. 2006: 138). The payment method for healthcare services was modified. Payment of medical care in the primary healthcare sector is done mainly based on capitation¹¹⁷.

The *following reforms* focused mainly on cost containment, rather than reorganization. Co-payments expanded and at the same time voluntary supplementary insurance was strengthened. An accounting change was introduced in 2002 according to which the state further centralized the system of collecting funds with the intention to improve the collection base. As of 2004 general physicians receive additional reimbursement according to given service, which may not exceed 7% of the annual capitation or 12% respectively for physicians working in retirement/nursing homes (Jurlina-Alibegović et al. 2006: 146). Medical services in secondary and tertiary healthcare are paid through a combination of fee-for-service reimbursement and a DRG based system. The total of funds that a hospital can charge from the CIHI is limited by an annual budget cap.

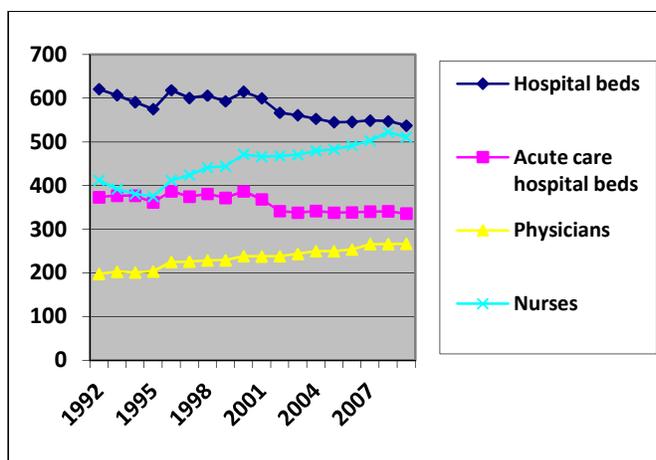
The *2009 reform* announced interventions in the primary healthcare sector, rationalization of hospital network and of emergency medical services (Bodiroga-Vukobrat 2010). The reform proposed to replace the previous lease of space by physicians in medical institutions with a concession awarded under a public bid. The local or regional municipality would manage the bidding process and award the concession to the best bidder. Concessions are intended to clarify the relation between the service provider and the service financier and thus contribute to improved efficiency. Through the transfer of competences to the local level, the previously dominant centralization process was now to be replaced by a trend of decentralization and withdrawal of the state. Additionally, a new payment method for the primary healthcare was introduced, comprising of a fixed capitation amount and a variable performance based part (Katić et al. 2012).

Croatia has a wide network of *medical institutions*. In 2010 there were in total 1.116 medical institutions, which was 114 more than two years before that (HZJZ 2011: 76, HZJZ 2009: 66). It was mostly pharmacies, polyclinics and health companies which contributed to the increase in numbers of medical institutions.

Average distance between hospitals is 36km, whereas average European standard is 77km (Bodiroga-Vukobrat 2010: 26). Hospitals are concentrated in the urban areas and continental Croatia, whereas in the coastal area greater distance between hospitals exists with up to 200km between the Split and Dubrovnik hospitals. The number of hospitals is considered a substantial financial burden. Also while some hospitals suffer under lack of staff and equipment, others are underutilized. Connected to the size and regional distribution of hospitals, latest reform attempts intend to start with their reorganization.

Figure 7 depicts the data on *hospital beds and medical professionals* (1992-2009). The number of hospital beds shows a declining trend especially after 2000. On the other hand, the rate of hospitalization recorded an upward trend (11,7-16,8 per 100 inhabitants). The average length of inpatient hospitalization was reduced (15,2-9,7 days). Outpatient contacts as part of primary healthcare and ambulatory care first increased and then again decreased (4,4 contacts per person per year in 1992, 7,6 in 2004 and 6,3 in 2009).

Figure 7 Croatia - hospital beds and medical staff, per 100.000 inhabitants (1992-2009)



Source: World Health Organization Regional Office for Europe 2012.

Domestic experts and other social actors have been skeptical towards the reform processes. The fact that each subsequent reform has been stating more or less the same goals suggested that previous reform attempts have ended unsuccessfully (Puljiz et al. 2008: 137). In contrast, the reforms have been welcomed by the World Bank, which was involved in the reform process, making loans contingent on reduction of public healthcare expenditures (Bodiroga-Vukobrat 2010: 31). Continuous rationalization through stronger shifts of financial obligations for the healthcare services to the individuals may negatively affect the accessibility and quality of the healthcare services, in particular for the most vulnerable categories. Concretely speaking, with the latest announced reform, 360.000 beneficiaries lose the right to complementary health-insurance financed by the state (Bodiroga-Vukobrat 2010: 30). Finally, an important impediment which undermines the reform efforts has been corruption. While benefits are being cut and financing of hospitals is being limited, the CIHI has made payments for equipment on amounts which largely surpassed the price range of similar service in neighboring, EU member countries (Bodiroga-Vukobrat 2011: 25).

4.2.3 Labor market and unemployment protection

Croatian unemployment rates rapidly took off at the onset of the transition, to a large extent owing to the war, but also due to the economic restructuring and privatization. The unemployment rate peaked in 2000, when it was almost three times higher than in 1990 (Kerovec 2000). Since then it has been on a declining trend, reaching a single digit in 2007. After 2008,

however, the unemployment rate started increasing again considering the effects of the global financial crisis. Although there are different ways of measuring unemployment, the trend has been the same. The Croatian Employment Institute (CEI) reports the total number of persons which register there as unemployed. The Labor Force Survey (LFS) is an instrument commonly used to measure unemployment based on household surveys. Registered unemployment figures are usually higher than the LFS data, as they may catalog also persons who do not fit the unemployment definition¹¹⁸. The LFS was first conducted in Croatia in 1996.

Table 14 Unemployment rates in Croatia, according to LFS* (1996-2011)

Year	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11
	10	9,9	11,8	13,5	16,1	15,8	14,8	14,3	13,8	12,7	11,1	9,6	8,4	9,1	11,8	13,5

Source: ILO 2011 (1996-2008), Eurostat 2012 (2009-2011) *persons aged 15 years and over.

Within these figures, there are differences between the unemployed based on age, gender, education level, duration of unemployment status, region and other criteria. Unemployment rates are much higher for young people, women and people with lower educational attainment. There are also considerable variations in unemployment rates regionally. A large proportion of the unemployed have been holders of that status for a long time.

In parallel to the growth in unemployment, the labor force participation rate fell. LFS data shows that the activity rate for the total population fell from 56.2% in 1996 to 49.6% in 2005. For the population aged 15-64, the activity rate of 61.6% in 2001 rose to 63.2% in 2005, while at the same time, the employment rate increased from 51.6 to 55.0% (Bejaković et al. 2007: 6).

At the same time, the labor market was changing. The share of persons employed in agriculture and manufacturing dropped in favor of persons working in the services sector, which in 2005 reached 62,5% (Bejaković et al. 2007: 8). The privatization process contributed to the decline of public sector employment, which was reduced from 42% in 1998 to 39% in 2005 (Ibid.), and to expansion of jobs in private companies. In particular, fixed-term and temporary employment contracts started dominating the process of job creation. The actual liberalization of the Croatian labor market found a legislative confirmation in 2003, which deregulated both permanent and

temporary employment (Račić et al. 2004: 53). In 2006 the overall share of fixed-term contracts was 12,9% (Government of the Republic of Croatia and European Commission 2008: 14).

4.2.3.1 Financing

Given the fact that the unemployment rate doubled during the first years of independence and then continued rising, the unemployment protection system faced the challenge of absorbing large part of the labor force. The financing of the system relied on salary contributions, as part of the social insurance against the risk of unemployment.

The *contribution rate* was highest between 1991 and 1994 and amounted to 2% of gross wage. Since 1996 the contribution rate has been 1,7 percent (Bejaković 2011: 76). Since 2002, like in the case of the pension and healthcare insurance, contributions are collected by the state treasury which then transfers the funds to the CEI for management.

In absolute values, both the *revenues* and *expenditures* of the CEI have been increasing. However, their share in the Croatian GDP has remained constant, which has much to do with the improved performance of Croatian economy. Expenditure has been ranging between 0,67 and 0,41 percent of GDP, manifesting a nonlinear development (Puljiz et al. 2008: 208). The structure of the expenses is as follows: 78% for unemployment benefits, 10% for active labor market policies within the national plan for stimulating employment, 9,76% for the functioning of the CEI, 1,4% on projects related to the EU accession, 0,25% for inclusion of Roma in the labor market, 0,09% for professional orientation, information and rehabilitation (HZZ 2011a). This ratio has been more or less unaltered.

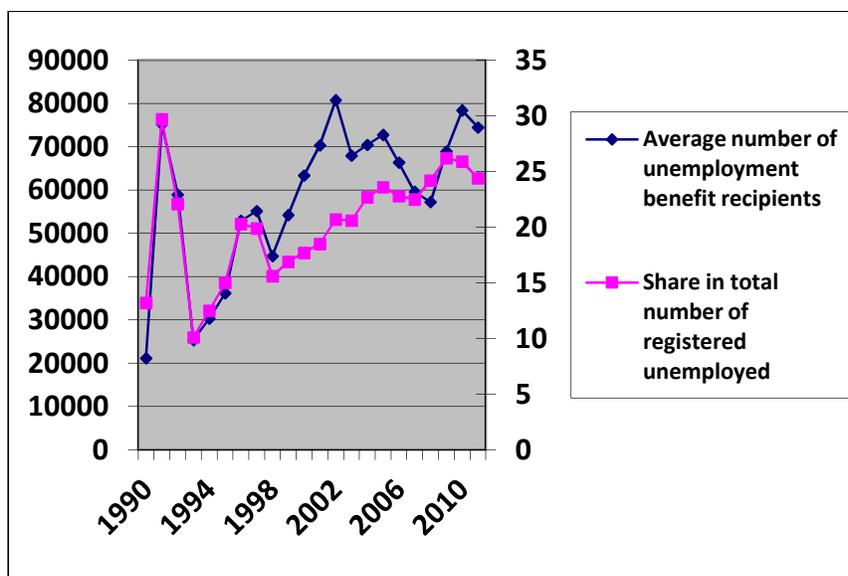
4.2.3.2 Benefits and Coverage

The main benefits for the unemployed consist of a *cash benefit, right to pension insurance, right to financial assistance and compensation of transport costs during education, and right to one-off monetary assistance, compensation of transport and moving expenses*¹¹⁹. The type of benefits has not been subject to change, only their scope. The unemployed persons also have a right to health insurance, which is remunerated by the state.

The *cash benefit* is the most important benefit, which takes up 99% of the total unemployment benefits. The cash benefit is given to a person with previous employment track record who has been paying contributions. The person has to register with the Employment Institute in the legally prescribed time-frame. The minimum requirement for obtaining a right to cash benefit is that the person must have worked at least nine months in the preceding two years. The benefit can be acquired only if the employment ceased as a result of accident, and not in the case when the employment contract was terminated based on a mutual agreement between the employer and the employee, the termination was because of underperformance or inappropriate conduct of the employee, or the termination was caused by resignation of the employee (with the only exception when resignation was provoked by the employer's behavior).

These stipulations limit the scope of the cash benefit to some extent. Nevertheless, there has been a mounting number of cash benefit recipients over the years. Matković explains that in the first years of transition many jobs were lost as a result of failing enterprises, with the result that persons with many years of service became entitled to unemployment benefit (Puljiz et al. 2008: 200). The longtime workers were joined by the Croatian defendants, who gained the right to an unemployment benefit, based on the time spent in the war between 1994 and 1997 (Puljiz et al. 2008: 201). But the trend continued even beyond the year of 2000 as a result of the labor market dynamics, the tightened eligibility criteria for early retirement, and the loosened up conditions for access to cash benefit (Puljiz et al. 2008: 202). After 2009 the global financial crisis contributed to a growing trend in the number of beneficiaries.

Figure 8 Croatia – unemployment benefit recipients and their share in the total number of registered unemployed (1990-2011)



Source: HZZ 2011b (Croatian Employment Institute) and author's calculations of the share based on given values.

The left axis in Figure 8 depicts the number of benefit recipients and the right axis depicts the share of the recipients in the total number of unemployed. Despite the mounting trend of unemployment beneficiaries in absolute terms, the figure shows that only a small fraction of the unemployed have actually been covered. The highest share was noted at the very beginning of the transition, in 1991 - 29,7%. Only towards the end of the second decade has the share again neared this level. Such figures can be attributed to the unemployment structure consisting of long-term unemployed who have expended their right to benefit, young people who haven't yet entered the labor market, and self-employed, who are also excluded from the system (Bejaković 2011: 77; Puljiz et al. 2008: 202).

Cash benefits are limited not only in their range, but also in *duration* and *quantity*. At the beginning, the rules determining the duration and amount of benefit were more lenient. Over time, as the mounting number of unemployed strained the system, certain interventions were made¹²⁰. The possibility to indefinitely receive cash benefit was curbed. From 1996 to 2002 a person who had worked for 30 years (men) and 25 years (women) had a right to cash benefit until they found new employment or the conditions for cessation of the right were fulfilled. This practically gave a possibility to be on unemployment benefit until retirement. From 2002 to 2008, this right was guaranteed for a person who had worked 35 years (men) and 30 years (women). In 2008 the years of service were equalized to 32 years of work for both men and

women. And finally in 2010, the indefinite duration of the benefit was suspended. It could be paid only up to five years as it was foreseen only for persons who still had five more years to retirement. Otherwise, the benefit duration before 2008 was between 78 and 312/390 days and afterward between 90-450 days.

The *level of the unemployment benefit* is dependent on the previous salary track record and the contributions. The basis for determination of the benefit is the average amount of the wage in the last three months of employment. The cash benefit adds up to 70% of this basis for the first 90 days and 35% for the remaining time. Before the latest changes these percentages were 70% and 50% respectively (2008-2010). Between 1996 and 2002 the amounts were 80% of the basis up to 78 days and then 60%. Between 2002 and 2008 the cash benefit according to the stipulation could theoretically be 100% of the basis. However, the maximum amount possible for awarding was capped by an upper limit determined by the government, proposed by the minister responsible for labor upon a preliminary opinion of the Economic and Social Council and the minister of finance.

The cash benefit has a *minimum* and *maximum* determined amount. Subsequent to 2010 the minimum benefit could not be lower than 50% of the minimum wage, and the maximum benefit not higher than 70% of the average salary in Croatia for the previous year during the first 90 days of payment; both minimum and maximum benefits were fixed at 35% respectively for the remaining time. These definitions were also subject to several changes over the years.

In absolute terms, the amount of the unemployment benefit has been increasing; however, the ratio to average wage has been deteriorating. While in 1997 the maximum cash benefit was 43% of the average wage, in 2007 it fell to 24% (Puljiz et al. 2008: 204). In 2010, this ratio improved dramatically with the maximum cash benefit reaching 69% of the average wage (HZZ 2011a; Croatian Bureau of Statistics 2011). However, if we consider that the average benefit paid was 28% of the average wage, we observe that not many beneficiaries profited from the raise of the maximum benefit amount.

4.2.3.3 *Employment measures*

Besides managing benefits the Croatian Employment Institute engages in *employment mediation* and *counseling*. After 2002, following a new law on employment mediation and entitlements during unemployment, private entities could also undertake such activities. Moreover, the obligation of employers to report vacancies to the CEI was abolished. The CEI was thus relieved of a certain amount of workload. As Matković observes, the CEI could then focus on one-on-one work with employers and the unemployed. It furthermore expanded its activity on group or individual counseling. Its efficiency improved through application of modern instruments for data processing (Puljiz et al. 2008: 183-6).

The CEI also developed a series of *active labor market measures*, which can be summarized into: *employment subsidies*, *self-employment loans*, *training* and *public works*. The type of measures put in place as well as their intensity has been subject of continuous fluctuation. Particularly targeted categories have been: young people entering the labor market, elderly unemployed, people with disabilities, Croatian defenders and their family members, Roma and other vulnerable categories.

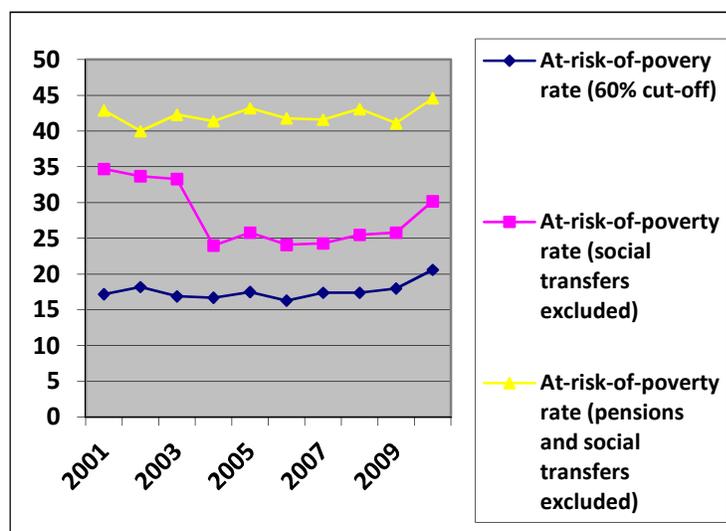
However, such comprehensively defined programs and ambitious target groups were not matched with corresponding financial support. In fact, ALMMs touched upon a very small fraction of the unemployed and were not largely used to reduce unemployment (Bejaković & Gotovac 2011: 347). Employment subsidies were most widespread and in some years they were used by 17,2% of the registered unemployed, but in general the number of the unemployed reached by active labor market measures was between 2 and 8 percent (Puljiz et al. 2008: 191). Spending on ALMMs was on average 0,11% of the GDP (Ibid.).

4.2.4 **Social protection**

Poverty in Croatia has been measured differently, making it difficult to make out clear-cut poverty patterns. The World Bank uses the measure of absolute poverty line¹²¹. The first research on poverty in Croatia was conducted jointly by the World Bank and the Croatian Bureau of Statistics (CBS) in 1998, which found that “absolute poverty is low (...) but those who have the misfortune to be poor are seriously deprived” (World Bank 2001: vi-vii). During the second

decade of transition, the CBS moved away from this methodology to the use of relative poverty line in accordance with the EU Laeken indicators methodology¹²².

Figure 9 Croatia - at-risk-of-poverty indicators (2001-2010)



Source: Croatian Bureau of Statistics 2012, various statistical reports.

The *poverty profile of households* illustrates that those mostly at risk are the economically inactive, the unemployed, low-wage earners and the elderly, in particular in single-person households. Other vulnerable groups that can be singled out are pensioners, persons with low level of education, single parent families and families with three and more children, refugees and displaced persons, persons with disabilities and the Roma. Moreover, the poverty rate of women is higher than the poverty rate of men.

The Gini coefficient has stayed stable at 0,29 since 2001 (Bejaković 2011), and in that respect has not essentially differed from figures of most other countries of the EU. Croatia has the second highest wage rate among all transition economies (the first place is held by Slovenia) (Jurlina-Alibegović et al. 2006: 3, Bejaković et al. 2007: 9). Wage growth has been a bit lower than productivity growth, and despite its average value being higher compared to other countries in Central and Eastern Europe, its purchasing power is unfavorable related to the high price levels in Croatia. There seems to be a widespread perception that inequalities in Croatia are high, as wounds imposed by the privatization process have been fresh and the remembrance of

socialist equality had not faded away (cf. Bejaković et al. 2007: 22; Jurlina-Alibegović et al. 2006: 40; Šućur et al. 2006: 16).

Social transfers have been an important instrument for reducing income inequality. Until 2004 social transfers practically halved the poverty rate (see Figure 9 Croatia - at-risk-of-poverty indicators (2001-2010)). Not all social transfers were as effective. Pensions contributed to lowering poverty, but not as strongly as other social transfers. Due to the many interventions in the pension system, pension benefits were distributed rather unequally (Jurlina-Alibegović et al. 2006: 8). After 2004, the effect of social transfers dwindled, while the impact of pension benefits ascended.

4.2.4.1 Financing

At the onset of the independence, the system of social protection was centralized. The Croatian state resumed the responsibility of alleviating the mounting social problems. A Social Program was adopted in 1993 directly intervening in the social protection system with the main intention to relieve the consequences of the war. In the post-war period the system required stabilization. The Social Care Act¹²³ and its subsequent amendments preserved the role of the state as main provider of social care, but at the same time introduced new principles, which foresaw increased responsibility of other actors, such as the family, local community, civil society. Possibility of private involvement in the provision of social care was also given.

Until 2001 the state's *expenditure* on social care continuously grew. In 1992 it amounted 0,61% of GDP (Puljiz et al. 2008: 254). In 2001 the level of government spending reached 1,26% of GDP, after which, it gradually fell to 0,79% (2008) and 0,89% (2009/2010)¹²⁴. In absolute terms, also after 2001, the spending on social care recorded steady growth, from 1.914.947.393 HRK (2001) to 2.885.589.312 HRK (2010). The state remained the primary financier of social care, covering around 96% of all spending. The transfer of some of the responsibilities for social care onto the local communities was not sufficiently assisted by the process of fiscal decentralization. Some of the wealthier municipalities, mainly the bigger cities, offer developed welfare schemes. Civil society, especially humanitarian organizations played an important role in the provision of social care, the first decade through participation in the mitigation of the effects of war and later through private provision of institutional care.

4.2.4.2 Benefits and Coverage

The welfare benefits can be summarized into: *social assistance* (cash and in-kind benefits), *institutional and non-institutional care*, and *counseling*. Social assistance consists of maintenance assistance, disability benefit, care supplements, one-off assistance, assistance for meeting various expenses (food, clothing, school textbooks, firewood, funeral costs, etc.), training and employment assistance, and others. Institutional and non-institutional care include placement of children, young people, adults or elderly in institutions or in foster care. Particular benefits have been subject to change over the years, but the main types of benefits have remained the same. Some benefits have been abolished, some have merged and some new ones have been created.

The recipients of maintenance assistance are the biggest category of beneficiaries, followed by the recipients of one-off assistance and the recipients of care supplement. The *number of beneficiaries* has been fluctuating. The Social Welfare Program sheltered larger number of persons who became disadvantaged both as a consequence of the war, and the general economic hardship. As soon as the program ended, the number of beneficiaries dropped, only to start picking up again after 2000 (Puljiz et al. 2008: 257). The table below shows the developing trends of the number of selected categories of beneficiaries between 2001 and 2010.

Table 15 Croatia - number of social assistance recipients (selected categories) (2001-2010)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Maintenance assistance	50.406	53.119	52.656	52.513	52.272	49.960	46.720	42.541	43.246	46.246
One-off assistance	101.723	81.208	72.803	71.796	71.660	113.811	115.260	76.199	81.355	93.063
Care supplements	31.165	39.143	48.804	61.471	69.725	72.555	74.897	76.872	79.631	81.373

Source: MZSS 2011a (Ministry of Health and Social Affairs/Ministry of Social Policy and Youth), various annual statistical reports.

The number of welfare recipients depends on the strictness of the means-testing. For example, Jurčević argues that the expansion of the number of beneficiaries after 2000 resulted from the improved basis for benefit calculation which the Government raised from 350 to 400 HRK, the exemption of the child benefit from the means-testing and the transformation of the care supplement from a pension benefit into a welfare benefit (Jurčević 2005: 352). In some cases the child benefit was added to the income subjected to means testing (Ibid.); but as Balaband told me this practice was discontinued by the following governments in accordance with their policy favoring broadly defined categories (Balaband, interview).

Coverage determination has been ambiguous, given that the same person (household) may be eligible for different social programs. Jurčević (2005) found that by 2005 around 6% of the population had access to some sort of welfare benefit. With the exception of 2006 and 2007 when the number of one-off assistance recipients drastically increased, the number of welfare benefit recipients has been on the decline (see Table 15).

The basis for benefit calculation was subject to change. As mentioned previously, in 2001 the basis for benefit calculation was raised to 400 HRK. In 2008 it was again corrected, this time to 500 HRK (Vlada Republike Hrvatske 2011: 10). This basis is used for determining various types of cash benefits. As an example, the most common type of assistance - maintenance assistance - is awarded as follows: single households receive 100% of the basis, families receive 80% for an adult member, 80% for a child up to 7 years of age, 90% for a child between 7 and 15 years of age and 100% for a child between 15 and 18 years of age. Privileged amounts are granted under specific conditions. Šućur suggests that despite low benefit amounts, they represent a relevant source of income (Puljiz et al. 2008: 261). Furthermore, he claims that the welfare benefits are relatively well targeted, but insufficient to significantly reduce poverty.

The *child benefit* has been an important part of the social protection system¹²⁵. The benefit is means-tested and dependent on the number of children and the income of the members of the household. Eligibility criteria and the basis for benefit calculation have often been subject to change, which has affected the number of beneficiaries. The number of beneficiaries was highest in 2001 with 332.705 families, i.e. 628.654 children reached, after which it continuously fell to 213.136 families/399.477 children (2010) (HZMO 2011: 45).

The child benefit is relatively low: 275,45 HRK (2006) and 367,52 HRK (2010) on average (Ibid) and is therefore considered a poverty alleviation measure rather than a population policy measure (Puljiz et al. 2008: 315). Children of Croatian defendants receive special treatment. The payment of benefits is implemented by the Croatian Pension Insurance Institute. The combination with other benefits, such as tax exemptions or parental allowances, allows certain families to have access to substantial support from the state. Some research has found that these are not necessarily the neediest (Puljiz et al. 2008: 317).

4.2.4.3 Structure

Social protection is provided primarily by the Centers for Social Care, followed by various welfare institutions in state, municipality, or private ownership, as well as various forms of non-institutional care.

The *Centers for Social Care* are public institutions mainly in charge of social care management. There are 80 centers with 27 affiliates performing various functions in the provision of social care, protection of children and family, counseling, analytical and financial activities etc. Additionally, 275 *institutions* (72 state ones and 203 non-state institutions) provide primarily accommodation, but also other care services (Vlada Republike Hrvatske 2011). Comparatively, in 2003 there were 186 institutions (67 owned by the state and 119 non-state institutions) (MZSS 2011a). The number of non-state institutions, in particular the institutions for the aged or the infirm, has practically doubled.

4.3 Political Context

4.3.1 The 1990s

The first decade of transition was dominated by rise of nationalism, war of independence and authoritarian governance. The first electoral triumph of the Croatian Democratic Union (*Hrvatska Demokratska Zajednica, HDZ*) (1990), followed by convincing victories in subsequent parliamentary elections (1992 and 1995 for the first House of Representatives; 1993 and 1997 for the then existent second House of Counties) and presidential elections (1993 and 1997) confirmed HDZ's undisputed rule (see Annex II). In the face of rising nationalist sentiment in

Serbia and Milošević's attempt to impose a more centralized ruling system in SFR Yugoslavia under Serb supremacy, HDZ's program for Croatian sovereignty, resolute resistance to Serbia and promotion of ethnic-based rights appealed to Croatian voters (cf. Zakošek 2002: 30). And although it was the former Croatian communists that together with the Slovenes initially confronted Milošević and whose abandonment of the last Congress of the League of Communists of Yugoslavia marked the beginning of Yugoslavia's break-up and opened the way to political pluralism, it was the openly nationalist HDZ that scored most from the polarized atmosphere.

Ethnic-based antagonisms were overtly stimulated by the new Croatian government's policies, which discriminated ethnic minorities, in particular Serbs, and translated into expulsion of Serbs from public sector posts, widespread harassments, violation of their political, economic and social rights (Petričušić 2008: 71 ; Boduszynski 2010: 82), to which the Serbs responded by proclaiming autonomy in a region where they were in majority. Soon thereafter, an open conflict between the Serb rebels and the Croatian police arose (Ramet 2011: 532). Through the involvement of the YNA it escalated into a military conflict between Croatia and FR Yugoslavia, during which time the YNA-backed Serb rebels declared 'Republika Srpska Krajina'. The war ended after the withdrawal of Belgrade's support for the rebels and Croatia's successful launch of two major offensives known as Operation 'Flash' and Operation 'Storm', while following the termination of the United Nations Transitional Administration for Eastern Slavonia, Baranja and Western Sirmium (UNTAES) mandate in 1998 Croatia effectively established sovereignty over its whole territory.

During the period of its 'Homeland war'¹²⁶, Croatia also became involved in the war in Bosnia and Herzegovina. Similar to Milošević's display of irredentist tendencies towards parts of Bosnia and Herzegovina and Croatia, Tudjman's ambition for annexing parts of Bosnia and Herzegovina was also put into action. Evidence surfacing after Tudjman's death in 1999 suggested a deal between the Croatian and Serbian presidents for division of Bosnia and Herzegovina's territories (Ramet 2011: 800). The Bosnian-Croat conflict was brought to an end in 1994 thanks to US mediation, but Croatian state leadership appeared to have not given up its wartime agenda (ICG 1998).

Thus, instead of placing maximum efforts in rebuilding the country, promoting reconciliation and democratic development, Tudjman and HDZ perpetuated the nationalist agenda for power retaining purposes. Particularly at the early 1995 parliamentary elections HDZ could capitalize on the success of Croatia's independence struggle. However, there have been other aspects contributing to the maintenance of HDZ's rule during the nineties, such as the adjustment of the electoral rules and the broad competences (both prescribed and self-attributed) of the executive.

The segmented electoral model introduced in 1992 gave disproportionate advantage to the ruling party (Zakošek 2002: 48). This model was replaced by proportional representation in 1999, shortly before the political power shifted to the by then opposition parties. Additionally, the 1990 Croatian Constitution institutionalized voting rights of Croats living outside of Croatia, allowing the election of 12 fixed representatives at the 1995 elections, which increased HDZ's majority in parliament, considering the undisputed dominance of HDZ particularly among Croats in Bosnia and Herzegovina (Kasapović 2000: 6). The 1999 electoral reform modified also this stipulation.

The semi-presidential system which was constitutionalized during the nineties bolstered Croatia's and HDZ's president Tudjman's authoritarian position. The president had arbitrary right to appoint five representatives to the second chamber of Parliament, which the HDZ used to its advantage (Kasapović 2000: 7). He could appoint and dismiss the prime minister and ministers in the government, to which the Parliament had to confirm, he could call and preside with the Cabinet meetings as well as determine its agenda (Zakošek and Maršić 2010: 783) which gave him unrestricted control over the executive. The president's right to confirm the heads of the counties caused a political crisis in 1995, known as the 'Zagreb Crisis', when Tudjman refused to confirm the mayor of Zagreb (Zakošek and Maršić 2010: 783). The government decided to silence a popular and critical radio station in Zagreb in the midst of ongoing crisis, which despite sparking massive civic protests (Boduszynski 2010: 88), could not disrupt Tudjman's authority at the time. The regime's authoritarian rule relied on strict media control, executive dominance over the judiciary and legislative, manipulation of the security and intelligence services, economic clientelism (cf. ICG 1998; Petričušić 2008; Boduszynski 2010). In particular the nationalist, war profiteering elements of HDZ managed to assert themselves against the more moderate elements who sought economic reform and integration into Euro-Atlantic structures. Thus, independent Croatia's first Prime Minister, Stjepan Mesić¹²⁷, left the

HDZ to form a new party in 1993 as a reaction to the government's irredentist policy towards Bosnia and Herzegovina (Petričušić 2008: 61). But also after the war had ended, "a number of leading moderates in October 1998 resigned their posts and withdrew from politics" (ICG 1998: 1). As the International Crisis Group observed, "hopes that the HDZ might develop into a modern, democratic party [...] were quickly dashed by the proceedings at the HDZ's fourth convention in February 1998" (ICG 1998: 5), which sidelined the more moderate forces within the party and kept the state captive to non-transparent, corrupt and chauvinist structures.

President Tudjman's death in 1999 created space for the articulation of growing internal discontent and international pressure on Croatia to democratize, and facilitated the political shift which occurred at the elections in 2000. It gave the necessary confidence to the opposition to organize, which until then had acted as a lukewarm opponent to the ruling party. For instance, the Social Democratic Party (*Socijaldemokratska Partija Hrvatske, SDP*) had in 1998 dissociated itself from a protest organized by the trade unions against poor social conditions of the population (ICG 1998: 6). Although Croatia's governments enjoyed international backing during the war for independence, in the second half of the nineties, the international community, particularly the USA and the European Union, started supporting the opposition and financing the development of civil society (Boduszynski 2010: 76) in order to counter the authoritarian tendencies of the ruling elite.

4.3.2 The 2000s

Following president Tudjman's death, Croatian citizens put an end to the decade-long HDZ rule in the 2000 parliamentary and presidential elections. The new six-party coalition government, led by SDP's Ivica Račan, initiated the country's democratization. The government set itself to reform the political system, launch economic reforms, fight corruption, prosecute individuals who had profited from the fraudulent privatization process, enable return of Serb refugees, deliver war criminals to The Hague, and facilitate Croatia's integration into the Euro-Atlantic structures (Freedom House 2003a; Boduszynski 2010: 217). However, as the 2003 Freedom House report stated, "following initial success, including the adoption of a new Constitution that transformed the country from a presidential system into a modern parliamentary democracy, the government [...] hit a wall in 2002" (Freedom House 2003a). The government was plagued with

factual struggles over the reforms, in particular regarding the ways of dealing with Croatia's past, which eventually led to Račan's resignation. Although Račan was able to form a new government in 2002, it did not hold for long. The inability to deliver on the initial promises prompted HDZ's comeback at the early parliamentary elections in 2003.

HDZ managed to stay in power between 2003 and 2011 thanks to its new profiling as a modern conservative party and to its pro-European agenda. The first minority Sanader government (2003-2007) received backing by several parliamentary parties, including the representatives of the Serb community, which was a sign of HDZ's distancing from the right-wing nationalist discourse of the nineties. Furthermore, the government's determination to pursue a European agenda required explicit cooperation with The Hague; although that process did not run entirely unobstructed, the government managed to extradite eight suspects accused of war crimes and atrocities during the nineties (Freedom House 2005a). It was during the mandate of this government that Croatia received a candidate status for EU membership (2004) and started the accession negotiations (2005). The European Union chose to start accession negotiations despite Croatia's failure to hand over the last fugitive¹²⁸ sought by The Hague. Boduszynski writes that Sanader was able to politically "survive" the subsequent handover "and still maintain strong levels of support" (Boduszynski 2010: 221). The pulling force of EU's appeal had worked its magic, but also "good macroeconomic indicators [...] together with an increase in social spending for various underprivileged, as well as clientelist groups, brought a narrow victory for HDZ at the 2007 parliamentary elections" (Bertelsmann Stiftung 2012a: 5).

The accession talks with the European Union continued to define the mandate of the second Sanader government (2007-2009). However, progress in expected reforms remained elusive due to "the government's limitations in taming the complicated web of organized crime, government actors, and business interests" (Freedom House 2009). The European Union had been particularly critical of Croatia's inability to tackle corruption. It was only within the mandate of Sanader's successor, Jadranka Kosor, who became Prime Minister after his resignation from the post¹²⁹ (2009), that EU's pressure started to yield results. The former Prime Minister himself was arrested in 2010 on corruption and war profiteering charges. And although the Sanader case was often associated with Croatia's eagerness to demonstrate that it dealt with corruption as part of the EU conditionality (BBC 2011; Mayr 2011) other top level officials and executives of public

enterprises were not spared from prosecution either. Still, the justice system acted selectively, leaving many from HDZ's corruption network outside of its reach (Bertelsmann Stiftung 2012a: 12). Nevertheless, Croatia's anticorruption efforts were eventually validated by the EU (cf. European Commission 2011a: 13).

Apart from internal barriers, Croatia also faced external obstacles on the way to EU membership. Slovenia, which joined the EU in 2004, had been blocking Croatia's EU negotiations between 2007 and 2009 over a maritime border dispute (Pavelic 2013). Simultaneously, Croatia's accession to NATO was almost brought into question after one nationalist Slovenian party initiated a referendum to block Croatia. However, this crisis was short-lived, as in May 2009 the Slovenian parliament approved Croatia's bid by ratifying its accession protocol with the Alliance, after the initiators of the referendum had failed to collect the necessary number of signatures. Following a more resolved mediation effort initiated by the EU, the countries signed an arbitration agreement regarding the border dispute in November 2009, consenting to submit the dispute to the jurisdiction of an arbitration tribunal. Subsequently, the EU accession negotiations resumed and were successfully completed in 2011.

However, the corruption affairs had already damaged the government's public image, internal conflicts had politically weakened HDZ, which coupled with worsening economic situation and growing public dissatisfaction prompted a political shift in the 2011 parliamentary elections. Furthermore, the results of the 2009 local elections and 2010 presidential elections indicated a crack in HDZ's long-term rule.

4.4 The Politics of Welfare

4.4.1 The first HDZ dominated decade (1990-2000)

The policies of the nineties were defined by the context of war and the unconstrained one party rule of the nationalist HDZ, which had replaced the League of Communists of Croatia. Amidst growing economic hardship and ethnic antagonisms in the former Yugoslavia, people in Croatia chose the concept of a strong nation-state over liberal reforms as a way out. A strong state proved essential "to address the reconstruction of the war-damaged economy" (Bartlett 2003: 88). However, state interventionism in times of trouble was also used for gradual transfer of

control over public resources into the hands of members of the state elite. In time, new private owners, among which “not all [had] built up their businesses through patronage connections” (Bartlett 2003: 114), would start demanding a reduced state role and lower government costs, which would complement the loan requirements of the international financial institutions (Puljiz 2000: 63). Conversely, the transition losers called for “an intensified state intervention and redistribution of the national income” (Puljiz 2000: 63). These developments were also reflected in Croatian social policy, which Puljiz classifies into three phases: that of an emergency welfare state during the war period (1991-1995), stabilization and reform initiation under the auspices of the international financial institutions (1995-1999), and reform continuation following 2000 with increased involvement of the European Union (Puljiz et al. 2008: 30-1).

During the *emergency welfare phase*, Croatia’s policies adjusted to the war situation. Although the war directly affected only parts of Croatian territory, its consequences were far reaching. The war caused great human suffering, enormous material damage and significant economic decline. Bartlett writes that “the unemployed, together with one million pensioners, over 300.000 refugees and internally displaced persons, and war invalids accounted for 40 percent of the population, all potentially in receipt of social benefits” (Bartlett 2003: 122). The government launched a Social Program (1993) which was designed to supplement the existing social security system in providing basic protection to the war-affected population. Except for social welfare, the Social Program addressed aspects of the employment system, the pension and disability insurance, health, child benefit and other areas (Jurčević 1996: 35). Alongside this extraordinary mobilization of national institutions and resources, a large number of international organizations became active in provision of emergency relief. During this period “humanitarianism essentially substituted for longer-term developmental initiatives” (Stubbs and Zrinščak 2007: 90).

In 1993 the Croatian government successfully launched an anti-inflationary stabilization program with the support of the IMF and started an economic restructuring process. The economy started to pick up slowly; however, it was still not strong enough to carry the rising levels of public spending. The post-war reconstruction and the social problems plaguing society created pressures for spending. Some groups in particular, like war veterans and to some extent pensioners, were able “to press their demands on a populist regime” (Stubbs and Zrinščak 2007: 91), albeit differentially given the resource constraints. For instance, when the government

introduced the macroeconomic stabilization program in 1993, it also took the decision to change the pension benefit indexation, but without the necessary legislative changes. The decision was successfully contested in the Constitutional Court, which in 1998 ruled that the government had to pay back the debt resulting from the previous decision. This expense became too big a bite for the government to swallow and the government ignored the decision. Although between 1991 and 1999¹³⁰ public spending increased by more than 16 percent (World Bank 2002b: x), it was apparently insufficient to calm the dissatisfied population. Tax compliance in Croatia was relatively high, but the government still ran a high fiscal deficit, which was “facilitated by relatively easy access to international capital markets and by significant privatization receipts” (World Bank 2002b: xi).

On the other hand, apart from the war, bad privatization contributed to the rise of social problems that required attention. During the nineties the HDZ governments firstly took control over the largest formerly socially owned companies, in order to gain control over national resources (Franičević and Kraft 1997: 675) and then started creating a new elite by transferring state ownership into the hands of private individuals closely connected to the party. The badly executed transformation translated into an economic crisis caused by the collapse of the Croatian banks due to bad loans given out to unsuccessful companies but with good political connections. Despite the government’s intervention to bail out banks and loss-making companies, the crisis effects were deeply felt by the population. Growing resentment against unjust distribution of national resources and related social differentiation triggered protests among urban workers who had previously been supportive of the regime (Bartlett 2003: 114). And as the government could no longer sustain generous public spending in order to cover up its corrupt practices, various social groups that depended on state interventionism turned their backs on it. These groups which demanded state intervention to alleviate their social conditions were paradoxically pushed into such vulnerable conditions by state policies which focused mainly on appropriation of the country’s resources. Until the outbreak of the crisis, the HDZ governments successfully employed social policies to silence particularly vocal parts of society, thus creating a kind of “captured social policy” (Stubbs and Zrinščak 2007: 91) during the second phase of Croatian social policy making.

While Croatian governments were busy keeping the Croatian society under control, the international financial organizations, such as the World Bank and the IMF, whose generous loans assisted Croatia's post-war recovery (Bartlett 2003: 100) initiated economic reform which touched upon the welfare system. Their influence was most prominent in the *pension system*, which through the absorption of the laid-off workforce and the homeland war veterans acted as a buffer against the transitional insecurities and thus got into financial trouble. As a solution, the World Bank promoted its multi-pillar model in 1995 and as Liljana Marušić told me

“When the Croatian government accepted this concept, very few experts knew something about it. Some were a little more familiar with the financial markets. And at the time it was promoted through, how to put it, rose-tinted glasses – that it positively contributes to development of capital markets and economic growth, and does not have some of the negativity of the first pillar, such as preferential redistribution - and some minimum projections that were made, were evidently not optimistic, but inflated [...] The government made a decision based on those materials and presentations available only to the members of government. The expert community was not asked and even if it had been asked we knew little to be able to understand all those macro and micro aspects of the pension system, which means the professionals were there to implement and not analyze, question.” (Marušić, interview [my translation]).

The World Bank could thus levy its solutions because of the lack of expertise in the country, lack of transparency of the reform process, its superior financial position, and lastly, “the wish of the government, which was unable to develop any relations to the EU, to show that at least in some policy areas it is able to be reform-minded” (Stubbs and Zrinščak 2009: 131). The reform did not come in effect until the following decade, which contributed to keeping the public out of the decision-making. At that time, the ‘pensioners’ debt’ was a tangible problem and the pensioners held their focus on that.

Other parts of the welfare system were also facing significant fiscal difficulties. However, except for the *healthcare system*, where some cost-containment reforms were initiated, other areas of the welfare system did not experience major alterations. What is more, they even expanded in scope, in order to address the transition-related vulnerabilities. But even the healthcare sector

maintained a comparatively high level of spending of 7 percent of GDP (World Bank 2004a: 2), causing a deficit in the social health insurance fund. The government initiated some reforms aimed at containing costs and gradually introduced a private element in healthcare provision and through supplementary health insurance. The international financial institutions, mainly the World Bank, was supportive of the government's reform steps, but its involvement has remained "somewhat low-key" (Stubbs and Zrinščak 2007: 96) when compared to its role in the pension system reform. The *unemployment protection system* offered shelter not only to the people who lost their jobs but also to a large number of Croatian defendants who newly acquired the right to unemployment benefit. *Labor market policies* did not follow liberalization patterns inspired by the international financial institutions like the case in many other post-communist countries (Stubbs and Zrinščak 2009: 130). The *social protection system* offered a wide range of coverage for socially at-risk categories, and only after the phasing out of the Social Program and the adoption of the new welfare legislation (1998) greater emphasis on individual, family and communal responsibility was placed.

Through the maintenance of high level of social spending and "Keynesian socio-statism" (Puljiz 2000: 66), the governments of HDZ could manage the war- and transition related social consequences and retain power. The introduction of market elements in the welfare system was minimal and had a delayed effect which would come to light in the following period.

4.4.2 The SDP-led period (2000-2003)

Growing social discontent against the socio-economic policies of HDZ played a decisive role in the electoral win of the opposition. In an attempt to win public support, the SDP and HSLŠ (Croatian Social Liberal Party - *Hrvatska Socijalno-Liberalna Stranka*) signed a pre-electoral Social Contract¹³¹ with the Union of Autonomous Trade Unions of Croatia (*Savez Samostalnih Sindikata Hrvatske, SSSH*) which promised a social-democratic social policy model. Some typical proposals included: negotiating a minimum wage at the level of subsistence minimum, introducing progressive taxation, but also tax incentives for job creation, improving the position of workers and trade unions, guaranteeing universal health protection and social security for all Croatian citizens, restoring disability rights at the level prior to 1999, determining the scope of pension reforms concerning the second pillar implementation etc. (Zrinščak 2000). However, the

results of the new Račan government fell short of the initial expectations. Already the Government's Work Program was unclear in setting the socio-economic goals, guiding the direction of social policy reform and choosing a social policy model to be developed in Croatia (Zrinščak 2000). Secondly, inherited problems, established clientelist practices, and external restrictions limited the government's leeway.

In order to address the fiscal deficit, the government pledged to reduce expenditures "by mainly lowering the public sector wage bill, rationalizing the system of social transfers and some revenue enhancement" (World Bank 2002b: xii). General government expenditure shrunk from 48,8 percent of the GDP (1999) to 42,5 percent (2002) (EBRD 2010a); however, the cuts affected different areas unevenly. In this respect, the government was torn between external pressures for fiscal consolidation and internally given promises of accommodating the needs of various social groups. The confrontational relations between the coalition partners exhausted the government's energy for it to undertake any strategic social policy shaping and eventually contributed to its short-livedness.

During this period, *certain welfare state retrenchment* was initiated, guided by the IMF and the World Bank "as key actors dominating the overall policy framework" (Stubbs and Zrinščak 2007: 97). The *labor legislation* was modified to allow for some flexibilization of labor relations, the pension system reform continued and the second pillar was made operational, child and maternity benefits were rationalized. The government, in particular the Minister of Labour and Social Affairs Davorko Vidović, as he himself told me, had the unpopular task of balancing domestic and international pressures.

The proposals for labor legislation change instigated an extensive public debate. The minister himself held "effectively 60 hours of negotiations with the trade unions" (Vidović, interview [my translation]). Dissatisfied unions organized protests, but eventually "failed to push their proposals, and in the meantime, even managed to disunite" (Cvrtila 2003 [my translation]). Vidović said he regretted the failure of the "Partnership for Development" – what was supposed to be a social pact between employers, trade unions and the government (Vidović, interview [my translation]).

In the *pension system*, up to 20% increase of pension benefits was introduced as part of the Minister's plan for pensioners' debt return, which did not please the pensioners, who were expecting a retroactive wage indexation (Guardiancich 2009: 74). Pensioners further revolted against the further tightening of the pension system with simultaneous upholding a high level of inequality between the privileged categories and the rest. They challenged the government's decision to increase privileges for the Members of Parliament in front of the Constitutional Court without success and although following growing unease this decision was diluted (Guardiancich 2009: 69), disillusioned pensioners gathered around the Croatian Party of Pensioners (*Hrvatska Stranka Umirovljenika, HSU*), thus helping it become an important factor in Croatian politics, as the following period would demonstrate.

Ahead of elections, public expenditure was again lifted in the areas of health and education, cuts in public sector jobs were halted, privatization of large state-owned enterprises was postponed and subsidies to the shipbuilding and agricultural industries were given (Freedom House 2003a). Still, ambiguous policy-making, the wobbly coalition and dashed expectations among the population sealed SDP's doom.

4.4.3 The return of HDZ (2003-2007, 2007-2011)

HDZ's return to power deferred the internationally induced social policy reform process. The modernized version of the old party had preserved a conservative mindset with regard to social policies. Puljiz described HDZ's attitude towards social policy making as follows: "Interventions in the system are not left or right. On the part of the right they are populist. They are asked for by the electorate." (Puljiz, interview [my translation]). Social groups that have become influential in the previous period were given particular attention. Improved economic performance and heavy external borrowing enabled sustaining a high level of social spending. In 2004 Croatia signed another Stand-By Arrangement with the International Monetary Fund, which gave the institution a say in Croatian public finances. The EU approximation process granted the European Union an increased role in social policy affairs.

The *pension system* remained one of the most contentious and energy-consuming social policy areas. The first Sanader government was reliant on the support of the pensioners' party and it therefore chose to start accommodating their pending claims already at the beginning of its

mandate. Guardiancich argues that the public pillar “got captured by pensioners associations” (Guardiancich 2007: 136) whose persistent pressure contributed to the adoption of several interventions between 2004 and 2007, much at IMF’s discontent. Interestingly, the government chose to accommodate the requests of the pensioners’ organizations and the trade unions at the expense of neglecting the international financial institutions’ requirements. Whilst solving one type of grievances, the first pillar interventions caused distortions within the overall multi-pillar system, thus producing new kinds of problems and dissatisfactions. The problems were further exacerbated by the global crisis induced economic downturn and the related increasing pension fund deficit, which motivated the Sanader government in 2009 to start considering abolishing the second pillar altogether only to quickly reiterate after strong reactions by the opposition, the World Bank and the pensioners’ organizations (Vidović and Pauković 2011: 104). Instead, further tightening reforms and other interventionist measures were undertaken in order to ease fiscal pressures and lessen benefit inequalities among cohorts, many of which were not met with enthusiasm either (cf. Bodiroga-Vukobrat 2010: 11).

In other welfare areas, matters have been quieter and there has been a trend of stretching social provisions (Bertelsmann Stiftung 2010: 14). Reforms have not necessarily been a priority until 2009 when the global economic crisis put an increased strain on public finances. Budget deficits and growing external debt have been faithful companions of Croatian social policy making, although there have been internationally backed efforts for their containment (cf. IMF 2006). Throughout most of the mandates of the HDZ governments, this situation was to an extent facilitated by the pickup in economic growth; however, in 2009, worsening indicators and tightened external financing conditions motivated rethinking of the status-quo. The anti-recession measures and the Economic Recovery Programme that the government introduced in 2009 and 2010 respectively, among other things, promoted curtailing of public sector expenditures and acceleration of reform implementation (Bodiroga-Vukobrat 2010: 37-40). Whilst the international financial institutions welcomed the Programme, reactions from the Croatian public and professional circles have been mixed (Ministry of Finance 2010; Bodiroga-Vukobrat 2010), thus also contributing to uneven implementation of the various proposed measures. The Kosor government has been successful in introducing some legislative restrictions to the pension- and unemployment protection system, but has done less for achieving “greater

flexibility in wage setting mechanisms, privatization, and reduction of public administration [which] has been hampered by strong social resistance” (IMF 2011: 6).

A new Labor Code that was adopted in 2009 in order to align Croatian *labor legislation* with the EU was a product of more than a year of negotiations with the social partners (UATUC 2010). However, the 2010 government proposals for revision of the labor regulation, which have not been a EU requirement, were strongly opposed by the trade unions, backed by 813.016 citizens (UATUC 2010) who gave their signatures in support of a referendum initiative against the labor law amendments that planned to abolish the possibility for extended application of collective agreements and enable their cancellation. After initial hesitation, the government withdrew its proposal, simultaneously asking the Constitutional Court for an opinion. The Court’s ruling¹³² which rejected the referendum on the grounds that it was no longer needed as the government already repealed the amendments was met with harsh public criticism (Lukić 2010). Given the decision was final, it eventually calmed down passions, brought the trade unions and the government to the negotiating table and thus contributed to postponing the issue for after the elections. Nevertheless, public displays of discontent against the worsening economic situation, precarious social conditions and institutionalized corruption could not be suspended. Throughout 2011 Croatia was confronted with massive anti-government demonstrations.

Healthcare reforms also drew criticism. Already in 2006, Croatian trade union confederations unsuccessfully attempted to halt the adoption of a new healthcare development strategy and a legislative package, which according to them was “aimed primarily at reducing the rights of the insured and saving money at their expense” (Index 2006 [my translation]). Yet, reform proposals had never before been as aggressive in their effort to reduce public healthcare spending as in 2009. Motivated by exacerbating fiscal pressures and supported by the World Bank from which Croatia expected a new loan, the government demonstrated outstanding determination to implement reforms, despite severe criticism coming from trade unions, oppositional parties, medical doctors and even the coalition partner HSU (cf. Bodiřoga-Vukobrat 2010). Surprisingly, the war veteran associations positively received the health reform (Dalje 2009), although the new provisions affected them negatively as well. After failing to impose a mandatory supplementary insurance for all, the government proposed restricting the number of categories whose supplementary health insurance was covered by the state budget, which in 2010 found a way into

legislation. As a result, around 360.000 beneficiaries, mainly the unemployed and disabled, including war veterans, were excluded from state coverage and had to buy their own supplementary insurance or pay directly at the time of receiving the health service (Bodiroga-Vukobrat 2010: 30). The medical doctors, who, as a sign of solidarity of patients, had for over half a year refused to charge co-payments, were forced by the ministry to give in (Dnevnik 2009a). Furthermore, the ministry ignored the reactions by the medical associations against the rationalization of public hospitals and went on with their merger (Dnevnik 2010). Whilst the government was desperately trying to save money and lower the health insurance fund deficit, corruption scandals pointed to leakage of public funds (Bodiroga-Vukobrat 2011). Nevertheless, retrenchment¹³³ in healthcare was successfully achieved, albeit at the expense of the government's diminishing popularity.

Programs and benefits within the *social protection system* have remained wide. A report by the World Bank has found that with the amount of resources allocated to social assistance, Croatia would be able to eliminate poverty if the money were efficiently spent (World Bank 2010: 49). Over the years, a complex system has been created with numerous institutions and programs at both central and local level for policy development, implementation, monitoring and evaluation, which has led to costliness, double-dipping and unequal treatment (World Bank 2010: 64). Certain beneficiaries have been prioritized based on the category they belong to, rather than the needs (World Bank 2010: 50), which suggests that Croatia has managed to stay away from the approach of targeting advocated by the international financial institutions. During the mandates of HDZ governments, their nationalist and conservative attitude towards welfare has come to the fore, particularly through their placing high value on programs for war veterans and families with children. The Strategy for Social Welfare Development 2011-2016 and a new Social Care Act¹³⁴ heightened reform steps towards enhanced efficiency, activation, intensified decentralization and deinstitutionalization.

4.5 Agency and Cleavage Structures: Accommodating Approach

Accommodating the needs and demands of different social groups has become a feature of Croatian social policy making throughout the transition. The inherited structure of the welfare system was generally retained and adjusted to the new circumstances, mainly the war-related

consequences. Croatian governments juggled their agendas with domestic actors' demands and international pressures. Reforms driven by international actors in line with dominant global trends offset the conservative and clientelist mindset which was prevalent on the Croatian political scene. The EU-steered democratization had an empowering effect on domestic social groups. Although the EU has rather limited competences in the area of social policy, its political reform agenda facilitated the opening up of democratic space which different groups used to voice their viewpoints. Despite the mainly contentious relationship between the political and other social actors, the democratizing environment propelled the demands of the social groups, which consisted mainly of retaining their rights and benefits, onto the government agenda. However, the opportunity did not facilitate constructing an agreement on the future social-policy model in Croatia, but rather served to reconcile opposing views and to accommodate interests.

The Croatian *party system* has predominantly reflected the *territorial-cultural cleavages* in society. The conflictuous nature of Yugoslavia's break-up brought to light latent dividing lines regarding the interpretation of history. These dividing lines drew roots from World War II and the family relations with either the communist-led partisans or the supporters of the Axis-affiliated Independent State of Croatia (Šiber 1997). The Croatian Spring of 1971, which advocated for more independence of the Croatian republic, jeopardized the Yugoslav project, and albeit tamed by the political leadership of the federation, paved the way for Yugoslavia's dissolution. The window of opportunity created at the onset of the nineties, was used by HDZ to successfully monopolize the political scene through its exclusive understanding of Croatian nationalism. In the context of war, the electorate of the left-oriented block fell apart whereas SDP as communist successors also chose not to pursue the values on the other side of the spectrum (Zakošek 2002: 91). Thus, the whole first decade was dominated by the rightist ideas of centralism, ethnic- and religious-based national identity and traditionalism.

At the beginning of the second transitional decade, although it was expected that *socio-economic cleavages* would gain salience, they have not been reflected in political party competition. This can be explained through the fact that first, cultural cleavages pertained (Henjak 2005; Bagić 2007) and second, voter's attitudes towards socio-economic issues have been structured by their party affiliations (Henjak 2007; Dolenc 2012). Thus, the supporters of a certain party have been prone to adopting its socio-economic stance rather than shaping it. Evidence has suggested that

HDZ supporters have been more resilient, whereas support for SDP has been more volatile (Henjak 2007). For example, when disappointment with the privatization process and the demands for redistribution, which was part of SDP's pre-electoral promise, failed to translate into concrete policy, voters punished that. "Why did we lose? Because expectations of us were enormous. [...] We did not do anything to undo the social and moral consequences of the privatization in Croatia during the nineties. No one was arrested from the tycoons, nobody landed in jail." (Vidović, interview [my translation]). On the other hand, as Danijel Nestić told me about HDZ: "They have had a stable electoral body that continually votes for them, plus they get something extra when things are going well" (Nestić, interview [my translation]). Nestić furthermore suggested that whenever in trouble HDZ always pulled out the 'nationhood' card, which as stated above, has remained politically important.

This is not to say that socio-economic issues have not been salient, despite not mirrored as 'cleavage' within the political arena. Various surveys have shown that since 2000 the Croatian population has placed the economic situation, corruption and social policies among the most pressing issues (Boduszynski 2010: 111; Radin and Dzakula 2012: 202). Evidence has further suggested that solidarity and social equality are highly valued and that there has been a strong preference for welfare state interventionism (Vidović and Pauković 2011: 105; Dolenc 2012: 75). It seems that the HDZ governments, which have been in power for most of the transition, have successfully played this card, as they have been promoting statist attitude towards social policies. The fact that turning points in their rule have occurred when existing social programs have been at risk of trimming is supportive of this line of argumentation.

HDZ dominated the Croatian political scene during the two decades. It was founded as a nationalist and anti-communist party, but which following the 2000 electoral defeat transformed into a conservative party, rejecting extreme nationalism and affiliating with the European Christian-Democratic party family (Zakošek and Maršić 2010: 805). Tudjman was skeptical of a "neoliberal economic approach, preferring a state-centered market economy" (Bertelsmann Stiftung 2012a: 22), as a result of which the ruling party put its hands on public resources and implemented only as much economic reform and in a manner that suited the interests of the party elite. Its social policy approach has been conservative and based on close ties with the Catholic Church (Boduszynski 2010: 94) and also reflected the clientelist practice present in various areas

of the economic and political life. War veterans and their families particularly profited from this, by gaining various social rights and benefits, including privileged access to the privatization process. The reformed HDZ of the 2000s changed little in its attitude towards social policy which remained fundamentally conservative and etatist. The clientelist groups which were created in the previous period also retained their privileges. There has been reluctance towards economic restructuring, which has been part of the EU requirements, and subsidies to large public enterprises have been slowly removed.

The SDP is the successor party of the League of Communists of Croatia. In a cultural sense, as a party promoting an inclusive version of nationalism and modern secular values (cf. Zakošek 2002), it has been quite the opposite of HDZ. Also in socio-economic aspect it has been pro-reform oriented and during the time of its short-lived mandate pursued a neoliberal agenda (Boduszynski 2010: 96). In practice, the SDP-led governments between 2000 and 2003 have been more inclined toward the agenda of the international financial institutions, rather than the social partners with which a pre-electoral 'Contract for Just Croatia' was signed. Eventually this cost them the mandate. SDP has been affiliated with the European center-left and has chosen to adopt social-democratic policy approach, in particular the doctrine of the Third Way (Dolenec 2012: 82), which crystallized during their time in opposition after 2003.

Global trends in the direction of economic liberalism have narrowed the distance between the parties of the right and the left whilst the process of European integration "further strengthened the preference for liberal economic positions of both major parties in Croatia" (Dolenec 2012: 82). As a result, all Croatian governments have had to reconcile international pressures with domestic social groups' demands. Whilst in a period of economic upswing the governments successfully juggled the different forces, the austerity measures which were the global response to the crisis of the last years have made this possibility more difficult.

International involvement in Croatian social policy consisted of humanitarian intervention, post-conflict reconstruction and systemic reform initiation. During the first decade of the transition, related to the war and its consequences, through the provision of various programs and services, international involvement produced what Stubbs and Zrinščak called a kind of "welfare parallelism" (Stubbs and Zrinščak 2007: 89). The extension of welfare provisions and

proliferation of parallel welfare settlements have prolonged the effects of this welfare parallelism (Stubbs and Zrinščak 2007: 99); however, they have not altered the given welfare structure. Moreover, some programs that were created as a result of the war, most prominently for the war veterans and their families, have had nothing to do with the international factor, but were rather inspired by national motives. Towards the end of the '90s and the 2000s, Croatian social policy making was influenced by the agenda of the international financial institutions which handled in a non-imposing way at least until the effects of the crisis hit Croatia as well. It was mainly organized social resistance which limited their leverage and slowed down systemic reform. On the other hand, as the role of the EU became more important, it contributed to enhanced transparency and inclusiveness of social policy making. This became particularly evident in the process of adoption of the JAP and JIM¹³⁵ strategic documents, which “while far from perfect, represents an improvement on the previous practice of ‘behind closed doors’ strategy document preparation” (Stubbs and Zrinščak 2009: 129). The documents have been endorsed by social partners and have been a positive example of consensual decision-making, although their implementation has not been easy. The EU in Croatia also helped mitigate some of the impact of other international actors. For instance, talking about the social protection reforms, Vesna Mastela-Bužan told me that “they [referring to the IFIs] did not interfere much [...] and we tried to balance the requirements of the World Bank and the loan that was agreed to be in line with our national goals, and with what was adopted through the European context” (Vesna Mastela-Bužan, interview [my translation]).

The international actors' agenda was offset by the activity of various *domestic actors*. Some of them existed also in Yugoslavia, some were a product of the special circumstances of the nineties and the politics of HDZ, and some emerged or became empowered in the process of Croatia's transformation. During the war, numerous non-governmental organizations, such as the Croatian Red Cross, Caritas and others (Puljiz et al. 2008: 36), provided humanitarian assistance together with the Croatian Centers for Social Work and the international organizations. Apart from this type of cooperation, the political regime of the nineties was skeptical about sharing power and preferred unilateral decision-making. The regime became hostile towards any kind of political opponents, including civic organizations, which were at the time mostly concerned with democratization (cf. Boduszynski 2010). The only organizations that the government positively received were the organizations of the Homeland War Defendants, which received privileged

access to the national wealth. Even a special ministry was created (Annex II), thus giving this social group a special place in the Croatian welfare system. Over the years the veteran associations and other socially conservative groups, for instance, related to the Catholic Church, and the HDZ, to which they offered loyal support, became mutually dependent for survival and power. The Catholic Church retained a significant amount of influence on state policies (Freedom House 2012a) and its views on family matters particularly shaped the social protection policies.

Unlike these groups, which became natural allies to the predominantly HDZ-run governments, other groups such as the *social partners* had to fight in order to retain their positions and pursue their claims. Already in Yugoslavia, workers were organized in trade unions and workers' councils. Grdešić (2006) argues that Croatian workers and unions were not weak and that they have been able to assert themselves despite the highly conflictuous relationship they have had with the Croatian governments after independence. Trade unions were sidelined during policy-making. Moreover, the HDZ governments tried to weaken organized labor by encouraging its fragmentation and exercising political influence (Grdešić 2006: 129). Finally, through the use of authoritarian methods the regime tried to curb trade union activity (cf. ICG 1998). Despite all these attempts, trade unions held up¹³⁶ and continued fighting for their demands and organizing massive strikes and demonstrations throughout the whole decade. Eventually, their persistence played an important part in the regime change in 2000. Still, it would be incorrect to claim that the precarious political and economic conditions have not affected union organizing. Union density has been falling¹³⁷ and thus weakening the trade union movement as well as causing increasing rivalry between trade union organizations (Calvo et al. 2008: 118). After 2000 the trade unions soon became disillusioned with the new center-left government's labor and social policies. Although the unions were unable to enforce their claims regarding the labor legislation reform, the constant quarreling and the loss of their support ultimately cost the government its mandate. The subsequent HDZ governments could use this experience to proceed carefully in their interaction with the social partners. Social dialogue became one of the regular monitoring activities of the European Commission, which in its progress reports on Croatia registered continuous improvement. Thus, the democratizing political environment made it possible for organized labor to reassert its influence. Much of the tripartite dialogue on national level has been taking place in the framework of the Economic and Social Council (ESC), but also local

tripartite councils were established in all but one counties (Calvo et al. 2008: 120) and trade unions have been represented in various state institutions dealing with economic and social affairs. The continuity of social dialogue was interrupted in 2010 when trade unions withdrew from the ESC as a sign of protest against the government's attempt to change the labor legislation by circumventing the social partners. As it was elaborated before, owing to the unions' strong reaction, the government abandoned its proposals and the ESC resumed work (European Commission 2011b).

The pensioners' associations experienced a fate similar to trade unions (Guardiancich 2009: 51): They were able to obtain a Court's decision in favor of their demands, but unable to get either the HDZ or the SDP-led governments to implement it. It was only after they mobilized behind the Croatian Party of Pensioners at the 2003 parliamentary elections that they could use the newly gained political leverage to improve their bargaining position.

Finally, the transition contributed to social stratification of the largely egalitarian Croatian society. The HDZ-biased transformation of the ownership structure contributed to polarization between the *winners* on the one hand, such as the newly created business elite which was closely related to the ruling party, as well as a class of new owners, private entrepreneurs, investors, ex-socialist managers, and the *losers* on the other hand, including the workers, pensioners and the middle classes (Franičević and Kraft 1997: 678). The fact that not all privatization was fraudulent and autonomous entrepreneurial activity existed (cf. Franičević and Kraft 1997; Bartlett 2003) was insufficient to cover up the "tycoon capitalism" (Franičević 2002: 11) created in a highly deficient democratic environment, facilitative of corruption, patronage, clientelism, unlawfulness etc. An economic crisis shook the illegitimate system towards the end of the nineties. Croatia was, nevertheless, not completely freed from the 'ghosts of the past'. Widely perceived as unfair and responsible for social inequalities privatization remained a highly contentious issue in the subsequent decade. SDP's electoral defeat in 2003 was partly due to its inability to address the population's expectations for 'correcting the wrongs'. It was EU-driven democratization that ultimately forced HDZ to face its past doings. The finalization of Croatia's accession to the EU exposed the elite captured structures and forced the government to address them.

In sum, the inability of the political regime of the nineties to defend its rule by authoritarian means, the loss of Western support, popular dissatisfaction with corrupt government practices and its negative socio-economic results contributed to its voting out. Subsequent democratic consolidation of the country, which was closely related to the pro-European agenda, enabled different social actors to influence policy-making. To some extent the political elites' conservative understanding of social policies (with the exception of the short SDP governing period) did not stand in conflict with the standpoints of different social groups, whose demands were accommodated and thus the basis of the inherited welfare system was to a great extent retained. Despite changes in some areas, most notably the pensions system, ex post interventions watered down the initial reform design. On the other hand, in times of crisis the international financial institutions stepped up pressure on Croatia, which went up against the established model. The experts I interviewed agreed that in the future even as governments would be forced to implement social spending cuts, Croatia would also need to rethink its welfare model.

5 Serbia

In 1992 Serbia together with Montenegro became part of the newly constituted Federal Republic of Yugoslavia (FRY). In 2003 the FRY was replaced by the State Union of Serbia and Montenegro. Following an independence referendum held in 2006, Montenegro exited the State Union and both Serbia and Montenegro became independent states. Kosovo, which was one of the two autonomous provinces¹³⁸ within Serbia, became a UN administered territory in 1999 according to the UN Security Council Resolution 1244, adopted after the end of the military conflict between the Yugoslav forces and the Kosovo Albanian rebels which broke out the year before. In 2008 Kosovo unilaterally declared independence and has been recognized by the United States of America, the majority of the European Union member states, as well as other United Nations member states. The following chapter deals solely with Serbia regardless of its status, either as part of FRY or as an independent state.

The nineties were a period of serious setbacks for Serbia. Its political leadership pushed the country in four military conflicts: Slovenia (June 1991), Croatia (1991-2), Bosnia and Herzegovina (1992-5) and Kosovo (1998-9) (cf. Uvalic 2010: 4). These wars contributed to the strengthening of the authoritarian political regime and to international isolation of the country, which had severe repercussions on Serbia's development in both political and economic sense. The mounting international pressure on Serbia culminated into the NATO ordained air strikes (1999) which compelled Serbian forces to withdraw from Kosovo and eventually facilitated the regime change in 2000. The wars on the territory of the former federation and the issue of Kosovo remained inextricably linked to the course of Serbia's transition. The unsatisfactory cooperation with The Hague tribunal and the unresolved Kosovo issue not only stalled Serbia's European integration but also divided the political elites and polarized the society. These issues consumed valuable political energy that could have been directed towards democratic and economic development. In this respect, the nineties turned out to have far-reaching consequences for Serbia.

Despite the democratic political change in 2000, Serbia had a hard time to move beyond the category of defective democracies. Various deficiencies in the political system have been hindering democratic development, such as the unresolved statehood, problematic division of

power, and high political influence over what are supposed to be independent institutions, existence of organized crime, corruption etc. Economically, oligarchic structures that captured the economy in the previous decade continued to exert influence over Serbia's political life. As a result, Serbia's economic performance continued to stagnate.

5.1 Economic Development

Serbia's socio-economic situation during the first decade of the transition was defined by the wars on the territory of the former Yugoslavia, the UN-imposed economic sanctions against FRY (1992-1996), the war in Kosovo (1998-1999), NATO's military intervention (1999) and related government policies. The disruptive nature of the break-up contributed to a stark drop in GDP. Next to Bosnia and Herzegovina, which experienced the strongest economic shock, it was the FRY which had the second largest drop in GDP. In 1993, the GDP level had plunged to -30,8 percent, after which it started recovering (EBRD 2010a). Another negative change in the GDP rate was registered again in 1999 (-18%), after which the economy started recovering. However, Serbia has still not reached its 1989 level, falling behind by more than 20 percent. In 2009 its GDP per capita level was 5.889 USD.

Parallel to the recession, Serbia suffered the devastating consequences of hyperinflation. The average retail price inflation increased from 9.237 percent in 1992 to an amazing 116,5 trillion percent in 1993, reaching the peak in 1994, when prices rose by 60 percent on a daily basis¹³⁹. In 1994 the Central Bank introduced a macroeconomic stabilization program tightening the monetary policy and establishing a new dinar pegged at par with the Deutsche Mark. Although the stabilization program was initially successful in curbing the inflation and reversing the trend in declining output, its effects were short-lived, due to the shortage in foreign exchange reserves and related lack of support from the international financial institutions, as well as lack of commitment to the stabilization policy by the same institution that had introduced it (Bartlett 2008; Uvalic 2010). Thus, inflation reappeared.

The economic sanctions included a trade embargo. While the formal economy was ailing, smuggling channels with neighboring countries were established to circumvent the sanctions, mainly controlled by high-ranking officials, thus contributing to the financing of the ruling regime (Hajdinjak 2002). "The most important illegal activities were in the hands of a small

group of businessmen close to the political authorities,(but also) the government generally tolerated the underground economy since it provided an alternative income to many citizens” (Uvalic 2010: 69). Privatization was slow, social property was kept or turned into state ownership. Many people remained officially employed, however, “by 1994, in addition to some 1.412.000 pensioners, 600.000 refugees and almost 750.000 registered unemployed persons, there were also 800.000 to 1 million workers who were effectively without work on ‘forced vacation’” (Uvalic 2010: 68). Wages and pensions, deteriorated severely as the main source of income, because they were eaten up by the hyperinflation. This also contributed to impoverishment of the population.

Public expenditure during the first decade is hard to estimate, due to the lack of reliable data. Most of the expenses were related to the wars and their consequences. After the year of 2000, general government spending stabilized at around 40% of GDP (EBRD 2010a). It was highest in 2002 with 45,1% and in 2006 with 45,4%, after which it started declining slightly. Out of this, social expenditure has been around 20% of GDP, with a slightly declining trend after 2007, reaching 18,7% in 2009 (Vuković and Perišić 2011b).

The stabilization of public finances was related to the overall political and economic stabilization of the country after the fall of Milošević, which had clearly divided Serbia’s transition in two distinct decades. Economic performance started improving, the inflation was brought under control, trade relations with the outside world normalized, FDI started flowing in and foreign borrowing was made possible. Economic recovery was stimulated primarily through increased domestic demand, which the levels of production or exports could not match. As a result negative values of the current account balance rose, reaching their peak in 2008 with -17,9% of GDP, but slightly improving in the following years: -5,6% (2009), -9,6% (2010) (EBRD 2010a). Sluggish export performance was attributed to the currency policies, structural weakness in the economy and the slow restructuring, while increased domestic demand was facilitated by increasing imports, but also keeping public expenditure high (Uvalic 2010: 154). Public debt in Serbia was 40,1% of the GDP in 2006, 26,9% in 2008 and 42,4% in 2010; and external debt was steadily growing from 60,9% in 2006 to 82,5% in 2010 (Narodna Banka Srbije 2011). In 2008 the value of the government debt in the total external debt was smallest.

5.2 Changes to the Welfare System

5.2.1 Pension system

Until the 90s the Bismarckian pension system functioned well and provided a range of categories with a range of rights and benefits. It owed its functionality to the favorable *contributor to pensioner ratio*, which in the '80s was 3:1 (Bajec et al. 2008: 106); however, this ration was less favorable compared to the previous period when it was 5:1, or to the same period but another republic (Croatia). During the '90s the ratio officially deteriorated to 2:1, but in fact there was one contributor per pensioner, as a number of workers became redundant (Vuković and Perišić 2011b: 229). In the subsequent decade the ratio somewhat improved to around 1,5:1 (2009) (Stanić 2010: 60). In the meantime, demographic trends also became unfavorable for the sustainability of the pension system. Improved life expectancy and falling fertility rates contributed to an increased share of people over 65 years of age in the total population.

Perhaps a more important reason for the endangered functionality of the pension system in Serbia was that it had plunged into a severe crisis. The reduction of the number of employees, evasion of contribution payment and the widespread grey economy undermined the fiscal capacity of the system. On the other hand, the legal provisions allowed for the number of pensioners to rise continually. This situation was knowingly tolerated by the state, due to the generally difficult economic and social situation (Bajec et al. 2008: 106). However, the pension system did not seem to offer an exit strategy to the despairing population. The inflation was destroying the benefit values. Additionally, pensions were reduced in an illegal manner and delays in payments were frequent, eventually creating the so-called "large debt" (Begović and Mijatović 2005: 338).

5.2.1.1 Financing

The pension system is financed mainly through *contributions*. During the first decade of transition the contribution rate had values close to 30% (Vuković and Perišić 2011b: 250). In spite of such relatively high contribution rate, revenues were poor, due to the above listed problems. With the intention to consolidate the finances of the pension fund, in 2001 the contribution base was extended by inclusion of all work related earnings such as hot meal

allowance, vacation allowance and others into the gross wage. In order to provide incentives for exiting the grey economy, the government also lowered the contribution rate to 19,6% (Begović and Mijatović 2005: 340). According to Matković, the reduction of the contribution rate led to wage increase in state enterprises, which resulted in significant increase in real pensions (Begović and Mijatović 2005: 340). But the pension fund deficit did not decrease. Soon the contribution rate was raised again and since 2004 it has been fixed at 22% of gross wages¹⁴⁰. Employers and employees contribute equally, 11% each.

The pensions system in 2002 was operating with a deficit of 3% of GDP (see Table 16). Revenues from salary contributions stabilized but were still not enough to cover the expenditures. Budget transfers have been used to lower the deficit of the pension fund, but also to repay the debt towards the pensioners. The “large debt” was to be repaid by 2006 (Begović and Mijatović 2005: 341). The reforms which tightened eligibility criteria and changed the calculation and indexation of benefits, along with the stabilization of the contribution base, contributed to a deficit reduction. Between 2002 – 2007, the deficit fell to 1,77% of GDP. This reduction referred to the difference in the amount of contribution collected and amount of pension benefits paid. If other costs are taken into consideration, such as the mentioned debt repayment, the administrative costs of the fund and payment of other entitlements, the deficit is higher. It explains the relatively stable ratio of the budget transfers for that period (Bajec et al. 2008; Stanić 2010).

Table 16 Serbia - pension system revenues, budget transfers and pension system deficit (employee insurance) and pension expenditure (all three insurances), in % of GDP (2002-2009)

	2002	2003	2004	2005	2006	2007	2008	2009
Contribution revenues	6,8	7,1	7,4	7,6	7,8	8,1	7,9	7,8
Budget revenues	0,3	0,6	0,3	0,4	0,3	0,3	0,3	0,3
Budget transfers (total)	4,9	4,3	4,5	4,6	4,6	3,7	3,9	6,2
Pension system deficit	3,01	2,84	2,25	2,18	2,54	1,77	2,8	4,06

Pension expenditures	10,8	11,2	10,9	11	11,6	11,2	12,2	13,4
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Source: Stanić 2010: 87, 92.

The pension system deficit growth after 2007 has been caused by two interventions: a new stipulation preventing the average pension benefit from falling below 60% of the average wage and a political agreement to raise pensions by 10% (Stanić 2010: 86-87). This is also reflected in the level of expenditures. On average, in the last decade Serbia has been spending 11,5% of its GDP on pensions.

5.2.1.2 Coverage

Pension coverage in Serbia applies to all *employees, self-employed persons and farmers*¹⁴¹. These three categories are broadly defined. Thus, insured employed persons are classified in eleven subcategories and the self-employed in five. Given the expansion of new forms of employment, such as temporary contracts and atypical self-employment, in 2003 they were also included in the pension insurance scheme. The intention was twofold: stop the practice of contribution evasion through the use of these types of contracts and introduce a possibility for everyone, regardless of their employment and ownership status, to pay in contributions (Begović and Mijatović 2005).

Early retirement was discontinued, but a possibility for so-called *accelerated insurance period* has been available to persons who work in particularly hazardous jobs or jobs that cannot be effectively performed after a certain age. It allows calculating a longer insurance period than the one effectively spent. In addition to the increased insurance period, also the retirement age for these insured persons is lower than the regular retirement age. Some of these jobs are legally prescribed, such as for the military, tax police, secret service, and certain categories in the police, administration for the execution of criminal sanctions and ministry of foreign affairs. Other jobs which fall under this category are determined by the competent ministry. Insurance period rated with accelerated duration applies also for certain categories of disabled. In the first two cases the employers pay additional contribution, whereas for the last case of certain categories of disabled the accelerated years of service are covered by the pension fund.

Reforms focused on tightening *eligibility criteria*. Some of the proposals before 2003, such as equalizing the retirement age for both men and women, removal of the conditions of minimum years of insurance and minimum years of age were abandoned or postponed for a later stage of reforms (Vuković 2009: 91). That was the time when the debate also revolved around the dilemma of whether the three-pillar model would be an option for Serbia. Serbia opted for parametric reforms. The retirement age was raised from 60/55 years of age to 63/58 for men/women cumulatively with at least 20 years of insurance, 65/60 years of age (man/woman) with at least 15 years of insurance and finally 40/35 years of insurance (man/woman) with 53 years of age. Pursuant to the 2005 legal amendments, the right to old-age pension was gradually raised to 65/60 years of age (men/women) with at least 15 years of insurance; 40/35 years of insurance (man/woman) with 53 years of age; and an insured person with at least 45 years of insurance regardless of age. The final amendments to the Law on Pension and Disability Insurance¹⁴² envisaged gradual tightening of the second criterion until 2022 when the right to old-age pension would be acquired by insured persons with 57,6 years of age, and at least 40/38 years of insurance (men/women). Even with the latest alternations, Serbia did not choose to equalize retirement conditions for men and women. Moreover, the benefit calculation base for women was kept more favorable, “without [which] women would have significantly lower pensions” (Vuković and Perišić 2010: 15).

Additionally, eligibility criteria for other types of benefits were also tightened. The eligibility age for survivor pension was raised. The right to disability pension was reserved only for persons who had fully lost their capacity to work, as opposed to previously recognized partial loss of capacity to work. The insured persons with right to accelerated insurance periods have been the only category benefiting from the reform. The calculation of years of service has become more favorable upon the reforms, while some restrictions have been undertaken by raising the retirement age. These categories can be regarded as *privileged*.

Overall, the circle of persons who qualify for pension and disability benefit, or other benefits under the pension system has been tightened. Additionally, people who do not fulfill the abovementioned criteria remain outside of the system. It has been estimated that around 30% of the elderly above 65 years of age in Serbia are without any pension (Bajec et al. 2008: 118). The

following section explores the different types of benefits and the number of beneficiaries of each type.

5.2.1.3 Benefits

The three main types of pension benefits awarded are *old-age pension*, *disability pension* and *family (survivor) pension*. Other benefits include cash allowances for the case of physical impairment caused at work or professional illness, compensation of funeral costs and care allowance.

The *number of pension beneficiaries* has been slightly on the rise. While in 1997 there were 1.460.306 beneficiaries in total, in 2010 this number was 1.626.581 (PIO 2013: 4). Out of these, more than half are recipients of old-age pension, followed by disability and survivor pension. The number of survivor pensions has stayed rather stable over the years. Changes can be observed in the share of old-age pensions and disability pensions, both in absolute and relative values. In 1997 the share of old-age pensioners in the total number of pensioners was 48% and of disability pensioners 30%. In 2010 the percentages were: 56,5 (old-age) and 21,7 (disability) (PIO 2013: 4). The number of beneficiaries with accelerated insurance period is not insignificant. Moreover, given the fact that it is the only category of beneficiaries for which the retirement criteria have improved over time, their number has swelled. The share of these privileged pensions in the total number of beneficiaries is around 20% (Stanić 2010: 68).

The *replacement rate*, i.e. share of average pension benefit in average net salary, has been decreasing. Between 2002 and 2007 it fell from around 70% to 54%. In 2010 it was around 64%¹⁴³ (Stanić 2010: 74). Despite the worsened replacement rates, the real values of the benefits improved, as a result of the “introduction of regularity in pension benefits payments, high statistical wage growth with which pensions were indexed, as well as due to significant decrease of inflation (...)” (Stanić 2010: 74). The average pension benefit grew from 6.546 dinars in 2001 to 21.753 dinars in 2010. The growth rate was particularly high at the beginning of the reforms, but also in 2008 when, as mentioned earlier, two interventions in the system were made. The first negative growth rate after a decade was measured in 2010, which came as a result of the government’s decision to freeze pensions and public sector salaries that year.

The replacement rate is closely linked to the calculation of benefits. The parametric reforms, besides introducing changes in the eligibility criteria, also altered the *calculation of benefits* by the introduction of a new point formula, gradually widening the calculation period from 10 best consecutive years to full career and introducing a mixed wage-price indexation. The new formula contributed to a decreased average pension to average wage ratio. The benefits nevertheless grew too, because of the average wage growth which went up faster than the GDP growth (Mijatović 2008: 86; Bajec et al. 2008: 111). The pension fund's deficit did not immediately decrease; however, that can be attributed to other factors related to previously accumulated debts that had to be remunerated. Between 2005 and 2009, the pension indexation was changed again and the so-called Swiss formula of a mixed wage-price indexation was gradually replaced by a cost-of-living indexation. Since such a solution is less favorable for the pension-to-wage ratio, a transitory intervention prevented the pension benefit to fall below 60% of the average wage, for which purpose the state obliged to make an extraordinary adjustment by raising the pension benefits at the end of the year.

This intervention was transitory until 2009. Some projections anticipated that under these stipulations, the pension fund's deficit would disappear by 2018, at the expense of the pension benefits, whose ratio to wages would continuously drop and in 2018 would amount 36,8% (Bajec et al. 2008: 114)¹⁴⁴. After legislative changes in 2010, it was decided that benefit indexation will be made according to changes in consumer prices, but also the GDP growth (Vuković and Perišić 2011a: 7).

There are noteworthy differences in the *benefit level*, depending on the type of beneficiaries. The replacement rate is more favorable for old-age pensions, then for disability pensions and finally for survivor pensions. Moreover, employees and self-employed receive much higher benefits compared to farmers.

Table 17 Serbia - share of pensioners with below average pension benefit, January 2012

Insurance basis	Average pension benefit (in dinars)*	Share of pensioners with below-average pension benefit
Employees	23.694	58,6%

Self-employed	23.223	58,7%
Farmers	9.367	14,9%

Source: Own calculation based on data from Pension and Disability Insurance Fund of Serbia (PIO 2012) *the average pension benefit includes old-age, disability and survivor pensions.

Table 17 shows that at the beginning of 2012 most of the pensioners received below-average pension benefits. This seemed not to be the case for the farmers; however, one should bear in mind the fact that 80% of the farmers received 9.608,94 dinars, which is very close to the average pension. An important peculiarity in the case of the farmers is the fact that this amount was actually very close to the determined minimum pension benefit for 2011 (9.000 dinars), meaning that 94,9% of all agricultural beneficiaries received close to minimum benefit. Such was not the case for the employees and the self-employed where the minimum pension (11.447,81 dinars) lay below the average pension for these categories.

Thus, the Serbian pension system guarantees a *minimum pension benefit* and foresees a *maximum limit for the pension benefit*. The changes in the legal provisions - in force since 2006 - set the minimum old-age and disability benefit for employees and self-employed to 25% of the average wage from 2005. The changes furthermore stipulated that the benefit may not fall below 20% of the average wage of the previous year. Legislative changes entering in force in 2011 improved the calculation base for the minimum pension and stated that the minimum benefit may not fall below 27% of the past year's average wage. Conversely, the calculation base for the maximum benefit, which had not been subject to change before, worsened. Thus defined, minimum pension has offered a safety net against poverty, as after 2006 it lay above the absolute and relative poverty line (Vuković and Perišić 2011a: 12). Furthermore, poverty rates among pensioners are lower than general poverty rates and “in 2009 12,9% of pensioners were relatively poor, i.e. 5,3% absolutely poor” (Vuković and Perišić 2011a: 13). Nevertheless, certain beneficiaries, such as farmers or those receiving survivor pensions are especially at risk.

5.2.1.4 Structure

Serbia has retained a pension system constructed upon the principles of intergenerational solidarity. The reforms have not interfered much with the structure. The multi-pillar framework concept was discussed but not accepted. Mandatory insurance has remained public and based on the pay-as-you-go principle. The system has been managed by three independent funds of pension insurance of the employed, the self-employed and the farmers. The Employee Fund has been the largest with the highest number of contributors and beneficiaries. The Self-employed Fund has been fiscally most stable, operating with surplus, while the Farmer Fund has been operating under financial difficulties. For rationalization purposes, the three funds merged into one Pension and Disability Insurance Fund of Serbia. The process started in 2008 and was completed in 2011.

Voluntary pension insurance was introduced in 2006, but has remained underdeveloped (Vuković and Perišić 2011a; Vuković and Perišić 2011b). By the end of the third quarter of 2010 there were eight companies managing voluntary pension insurance with 168.066 beneficiaries, which was 2,5% more than in the previous year (Vuković and Perišić 2011a: 8).

5.2.2 Healthcare system

The Serbian healthcare system was built upon the Bismarckian social insurance principle and offers universal healthcare protection. In a similar manner like other segments of the welfare system, during the '90s the health-care system was in a severe crisis. Its financial base was seriously undermined, infrastructure was substantially ruined, and supply of medicine and medical materials was threatened. These became grave barriers to access to healthcare for the population. Additionally, corruptive practices emerged. Reforms were not initiated until the second decade of transition (Vuković and Perišić 2011b).

5.2.2.1 Financing

The share of *contributions* in the total *revenues* of the Health Insurance Fund has been around 70% (RZZO 2008). The other significant category in the financing of healthcare is transfers from other social insurance institutions (health insurance of the unemployed paid by the Employment Agency or health insurance of pensioners paid by the Pension and Disability Insurance Fund)

(around 25%), while budget transfers play a less significant role (around 3%). Over the second decade, both revenues and expenditures grew, but their structure remained relatively stable. In 2004 revenues amounted to 83.933 million Dinars and expenditures – 83.788 million Dinars, while in 2010 the amounts were as follows: 181.322 and 179.455 million Dinars for the revenues and expenditures respectively.

The *contribution rate* was often changed. Between 1996 and 2001, it varied between 17,2% and 19,4%, from 2001 to 2004 it was 11,9%, and in 2004 it was fixed at 12,3% (Vuković and Perišić 2011b: 252). Employers and employees contribute equally, per 6,15%.

International aid played an important part in the financing of healthcare during the initial years after 2000. Various donations and international assistance were in place, providing emergency relief, relief for drug shortage, supplying medical goods and investing in urgent repairs, followed by technical aid for capacity building and quality improvement (Bajec et al. 2008: 150). Out of the entire international assistance received by Serbia in the period 2001-2007, 4,54% was allocated in the healthcare sector (Bajec et al. 2008: 71), and this was not an insignificant share compared to other sectors. The European Union has been a major donor with 100 million Euros. Bilateral assistance often focused on either the improvement of the health status of certain population groups such as children, refugees, Roma, or on specific health issues (HIV/AIDS, drug dependency etc). Over time, loans gradually replaced the donations.

Private financing consists of co-payments for healthcare services, payment for non-standard procedures at healthcare institutions, payments for services from the private practice, out-of-pocket payments and under-the-table payments (Bajec et al. 2008: 149). The table below shows that the share of private stake in the total healthcare *expenditure* has been increasing. Despite significant growth of revenues and expenditures, this shows that while both public and private expenditure have been expanding, private expenditure has been expanding faster.

Table 18 Serbia - public/private healthcare expenditure (% in total healthcare expenditure) (2000-2010)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public*	70,1	68,6	72,7	71	68,9	66,4	63	61,4	62	61,9	61,9

Private	29,9	31,4	27,3	29	31,1	33,6	37	38,6	38	38,1	38,1
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Source: World Bank 2012 *Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowing and grants (including donations from international agencies and nongovernmental organizations, and social (or compulsory health insurance funds).

The given values should be interpreted with care. Another study, part of a project by the World Bank has come up with somewhat different figures. According to this study the share of private sector expenditure on healthcare 2002-2006 has been close to but has not surpassed the value of 30% (Mijatović 2008: 67). Other studies also offer different figures for the public-private expenditure ratio, or the per capita spending on healthcare (Vuković and Perišić 2011a). Nevertheless, what they all reveal is a general trend of rising expenditures, especially from private sources.

In addition, the values of the total healthcare expenditure as percentage of GDP differ. We use the estimates of the World Health Organization, because they rely on various sources. On average, Serbia has been spending 8,17% of its GDP on healthcare. The percentage of public spending has been between 4,9% and 6,2% of GDP (2000-2007) (Vuković 2009: 163). In 2008, public expenditures on healthcare fell to 5,7% of GDP, 5,6% in 2009 and 5,4% in 2010 (Vuković and Perišić 2010: 17; Vuković and Perišić 2011a: 16).

Table 19 Serbia - total health expenditure (public and private), % of GDP (1995-2010)

Year	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
	7,32	7,32	7,22	7,4	7,42	7,42	7,58	8,88	8,82	8,66	9,06	9,42	10,36	10,36	10,52	10,36

Source: World Health Organization Regional Office for Europe 2012 *Estimates produced by WHO, including both nationally reported data and estimates from other international organizations like IMF, WB, UN and OECD.

The funds collected in the Health Insurance Fund are principally used for covering healthcare services. Like in the case of the revenues, the structure of the expenditures has also been stable over the years. Expenditures for primary care amount to 33%, compared to 63% for secondary and tertiary care together (Bajec et al. 2008: 147). Almost half the funds is spent on medical staff

salaries (45%), the second largest share are costs for in-hospital drugs and medical devices (14%), as well as prescription drugs (12%) (Vuković and Perišić 2011a: 16).

Next to the *mandatory health insurance*, a possibility of *voluntary health insurance* exists, which is organized as follows: a) parallel voluntary insurance, covering costs of healthcare services given in a different way than what is regulated by the mandatory insurance; b) additional voluntary insurance, covering costs of the healthcare service, which are not fully undertaken by the mandatory insurance; and c) private health insurance open to persons who are not mandatory insured (Vuković 2009: 167). The limitations in the form of parallel insurance and its unclear formulation of a different way of giving the same healthcare service make the voluntary insurance of secondary importance. By 2011 ten insurance companies have become active in this area, but the number of clients is practically negligent: 95.739 (Vuković and Perišić 2011a: 17).

5.2.2.2 Coverage

The Serbian healthcare system guarantees health insurance to a wide range of insured persons and the members of their families¹⁴⁵. The bases of insurance are broad and apply to all employees, self-employed persons, farmers, pension beneficiaries, unemployed persons receiving unemployment benefit, and various other categories. Members of the family of the insured persons are also included in the mandatory health insurance scheme. Certain categories, which are considered particularly vulnerable, have been granted the status of insured persons, in case they are not already insured as family members. The categories identified by the legislator are: children and students up to 26 years of age, women with regard to family planning, the elderly over 65 years of age, disabled persons, persons being treated from HIV and other infectious diseases, priests, materially deprived persons (unemployed and beneficiaries of some type of assistance), the Roma, victims of domestic violence, victims of human trafficking, refugees and displaced persons. The costs for these categories are generally borne by the central budget.

Thus defined, the system is supposed to guarantee universal coverage. Nevertheless, the coverage rate has been estimated at 93% (Vuković and Perišić 2011b: 236; Vuković and Perišić 2011a: 17). “The missing 7% can be attributed to minority groups (Roma), refugees, internally displaced persons, asylum seekers (...) who because of lack of personal documents are unable to

exercise rights under health insurance” (Vuković and Perišić 2011a: 17). In addition, contribution evasion effectively prevents access to healthcare. Other factors also undermine universal healthcare coverage, such as regional discrepancies, socio-economic or other status of the insured, waiting lists etc. Evidence has shown that rural, poorer and vulnerable parts of the population manifest lower rates of usage of health services (Vuković 2009: 151). On the other hand, they have a higher participation rate in long-term illnesses, based on self-reported health status (Vuković 2009: 143).

5.2.2.3 Benefits

The benefits available to the insured person are various *healthcare benefits* and two types of *cash allowances*. Healthcare benefits include various preventive measures, rights to examinations and treatments, medical rehabilitation, drugs, medical devices and supplies. Cash allowances consist of salary compensation in case of temporary inability to work (injury/sickness benefit, benefit for nursing a family member, maternity benefit) and compensation of travel expenses related to the use of healthcare. The content of the rights has not been significantly altered over the years.

Patients’ co-payments have become an integral part of the healthcare benefit provision. They are of low amounts and there are also various exemptions. Moreover, there are legally stipulated guarantees that the public or private health institution cannot charge higher co-payments than the ones regulated under the mandatory health insurance, or charge the healthcare services which are covered by the mandatory insurance. Nevertheless, this has not stopped the trend of increased private participation in the financing of healthcare services, as was demonstrated above, in the section on financing. In particular what the “non-standard procedures” are, for which health institutions are allowed to charge patients, has been very unclear (Vuković and Perišić 2011b: 238).

Eligibility criteria, especially for the cash allowances have been tightened by conditioning the right to cash allowance upon previous years of service, shortening the period during which the employer pays the salary compensation, and finally making travel allowances available upon more stringent conditions regarding distance to healthcare facilities (Vuković and Perišić 2011b: 238-9). This has drastically reduced the usage of these benefits after 2005 (Vuković 2009: 159).

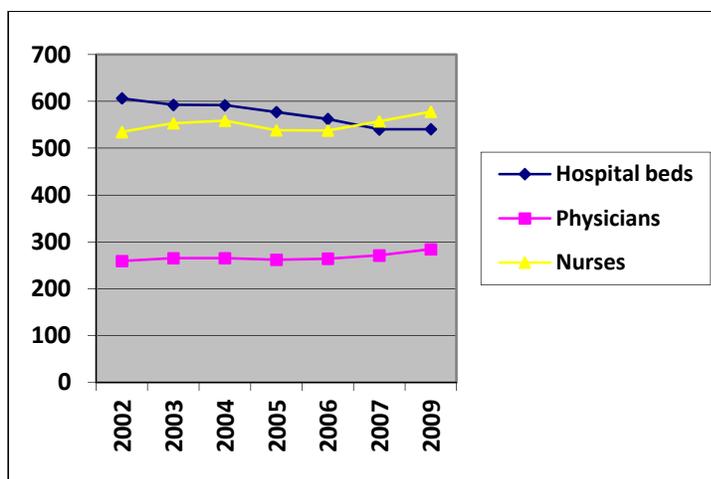
5.2.2.4 Structure

The healthcare system includes provision of *primary, secondary and tertiary level of care*. In 2007 there were 301 independent *public health institutions* in Serbia, which makes it 73 institutions less than in 1997 (Institut za javno zdravlje Srbije 2008: 157). In principle, the types of health institutions inherited from the previous Yugoslav period were retained. Their numbers changed mostly as a result of new classification criteria, and their reorganization was based on the 2005 legislation (Institut za javno zdravlje Srbije 2008: 158). The biggest quantitative change took place on the level of primary healthcare: the number of health centers grew from 58 to 116, within a process of decentralization that was coupled with acquiring independence from health institutions of higher rank. Secondary healthcare facilities (general and special hospitals) and tertiary medical institutions (clinical centers, clinics and institutes) have remained under the competence of the state and region (autonomous province). In 2010 the number of public health institutions became 344 (Institut za javno zdravlje Srbije 2010: 64). In particular, health centers, general and special hospitals contributed to the increase in numbers.

Figure 10 depicts the data on *hospital beds and medical professionals* (2002-2009). The number of hospital beds shows a declining trend. On the other hand, the rate of hospitalization for the same period recorded an upward trend (13,2-15,8 per 100 inhabitants). Population aging and an increased use of hospital services by the elderly contributed to increasing hospitalization rates (Institut za javno zdravlje Srbije 2008: 151). The average length of inpatient hospitalization, however, was reduced (11,7-9,4 days, 2002-2009). Outpatient contacts as part of primary healthcare and ambulatory care have slightly decreased (9,3-8,5 per person per year).

The number of physicians, in particular general practitioners, has grown. The total number of employees in public health institutions kept increasing until a significant reduction was undertaken in 2005 due to a governmental plan for rationalization in the health sector (Institut za javno zdravlje Srbije 2008: 160). The rationalization has been mainly conducted at the expense of the administrative-technical staff (Institut za javno zdravlje Srbije 2008: 161).

Figure 10 Serbia - hospital beds and medical staff, per 100.000 inhabitants (2002-2009)



Source: World Health Organization Regional Office for Europe 2012.

Private practice has been expanding and is estimated to encompass around 5.000 health institutions (Vuković and Perišić 2011b: 236). Private practice is organized chiefly at the primary healthcare level. Pharmacies and dental surgeries account for most private health institutions, but there is a significant segment of specialized healthcare services as well (Vuković and Perišić 2011a: 15). Private healthcare services are not part of the mandatory insurance and thus have to be paid out-of-pocket (Vuković and Perišić 2010: 19). Given the growing share of private expenditure in the financing of healthcare, clearly the usage of private healthcare services has been boosted. That was the case in the most developed areas of the country, such as Belgrade, where most private health institutions are based.

Otherwise, medical institutions are distributed fairly equally throughout the state (Vuković and Perišić 2011a: 25). Disparities exist in the access to healthcare and the quality of the given service, which are frequently better in the urban and more developed parts of the country. Discrepancies exist along the axis primary-secondary-tertiary healthcare regarding their capacities and level of utilization. Best service is offered at the tertiary level; even though it is burdened with high-demand rate and long waiting lists, while the secondary level is underutilized (Bajec et al. 2008: 143-4).

Such problems are attributed to the fact that despite the organization of healthcare into three levels, unclear division among care levels pertains (Vuković and Perišić 2011b: 236). From 2009 onwards several strategies have been adopted or drafted, out of which one aiming at structural

reform targets the primary healthcare level and the system of financing. The strategy “Better Primary Health Care for All of Us - Health Policy Guidelines for Strengthening Primary Health Care System in Serbia from 2010 to 2015” foresees rationalization of the network of primary healthcare facilities and better liaising between the three levels of healthcare, improvement of accessibility and quality of health services, and strengthening the cooperation between the public and private sector (Ministarstvo zdravlja Republike Srbije 2010). The way of financing would change by defining a basic package of healthcare services covered by the mandatory health insurance and replacing the current system of financing by introduction of payment based on number of patients on the primary level (capitation) and according to service output on the other levels. So far, only the concept of ‘selected doctors’ (family doctor) has begun implementation, as a first reform step.

5.2.3 Labor market and unemployment protection

The extraordinary political and economic circumstances of the 90s had devastating effects on the labor market. Although lay-offs were prohibited, many workers were sent on ‘forced vacation’. After the end of the Milošević era the unemployment status of these workers became official, further exacerbated by the restructuring and privatization process that followed. As a result, after 2000 the unemployment rate in Serbia has been increasing too.

Table 20 Unemployment rates in Serbia, according to LFS* (2004-2011)

Year	2004**	2005	2006	2007	2008	2009	2010	2011***
Rate	18,5	20,8	20,9	18,1	13,6	16,6	19,2	22,2

Source: ILO 2011 (2004-2008), Statistical Office of the Republic of Serbia 2012 (2009-2011) *persons aged 15 years and over **rates are incomparable with data from previous years due to use of different methodology ***data for April.

The data from 2007 and 2008 demonstrate improvement, i.e. lowering of the unemployment rates (Table 20). Also nominally speaking, the number of the unemployed declined from 665.000 to 460.000 for the same period (Arandarenko and Zelović 2009: 4). Within these figures, there are differences between the unemployed based on age, gender, education level, and other criteria. Unemployment rates are much higher for young people, women and people with lower

educational attainment. As a result of demographic trends, it is expected that over time the share of young people among the unemployed would decrease while the position of persons over 50 would worsen (Arandarenko and Zelović 2009: 6-7). There are also considerable regional variations in unemployment rates. The incidence of long-term unemployment is also extremely high, up to 81,2 percent of the total unemployed in 2007 (Bajec et al. 2008: 14).

Regarding the data on employment, between 1991 and 2000 the total number of employed was almost halved (Vuković and Perišić 2011b: 239). The biggest losses were recorded by the industry. Creation of new jobs after 2000 could not compensate for this loss. In 2007 the share of the industrial employment reached 27,5%, agricultural employment: 23,6%, and services: 43,6% (Statistical Office of the Republic of Serbia 2008: 123).

Employment rates of the age group 15-64 shrunk from 53,4% (2004) to 49,8% (2006) and then increased again to 53,3% (2008) (Arandarenko and Zelović 2009: 4). The employment growth (2007-2008) was attributed to the growth in so-called vulnerable types of employment - self-employment and employment of household members. In contrast, wage employment actually decreased in the same period. There has been some new hiring only in the public sector (Uvalic 2010: 151). Another adverse element of the labor market is the high share of informal employment relations – around 35% in 2007, which was 4% higher than in 2002 (Statistical Office of the Republic of Serbia 2008: 121). The slowdown of economic activity, induced by the global crisis, reflected a drop in employment: 50,4-45,4% (2009-2011) (Statistical Office of the Republic of Serbia 2012).

5.2.3.1 Financing

The *contribution rate* on gross wage ranged between one and two percent (Vuković and Perišić 2011b: 253). In 2004 it was set at 1,5%¹⁴⁶. The salary contributions have been insufficient for covering all the expenses of the National Employment Service (NES) whose budget is compensated by transfers from the state and to a lesser extent other sources. All the transfers account for more than half of the NES budget (NSZ 2011: 85).

Spending on unemployment insurance based measures has been on average around 0,7% of the GDP (Vuković and Perišić 2011b: 240). Most of the expenditure goes to unemployment benefits;

however the amounts spent have varied. The spending structure illustrates favorable trends for the passive benefits (Table 21). A significant proportion of the expenditure on passive measures is consumed by refugees and internally displaced persons from Kosovo, who have been receiving material compensation, based on a 2003 Government decision (NSZ 2011). They comprise around 20% of the beneficiaries.

Table 21 Serbia - structure of programmatic expenditure of the National Employment Service (2000-2007)

Labor-market measures	2000	2001	2002	2003	2004	2005	2006	2007
Passive	59,3	70,2	78,3	90	96,5	89,1	90,7	89,2
Active	40,7	29,8	21,7	10	3,5	10,9	9,3	10,8

Source: Arandarenko and Krstic 2008: 26.

Thus, after 2004 the spending on passive measures, i.e. benefits, has stabilized at around 90 percent, as opposed to around 10 percent spent on active employment measures. The worsening of the spending ratio between passive and active labor market measures has been attributed to the restructuring and privatization processes which had caused a significant drop in formal employment and mounting of unemployment benefit claimants (Arandarenko and Krstic 2008).

5.2.3.2 Benefits and Coverage

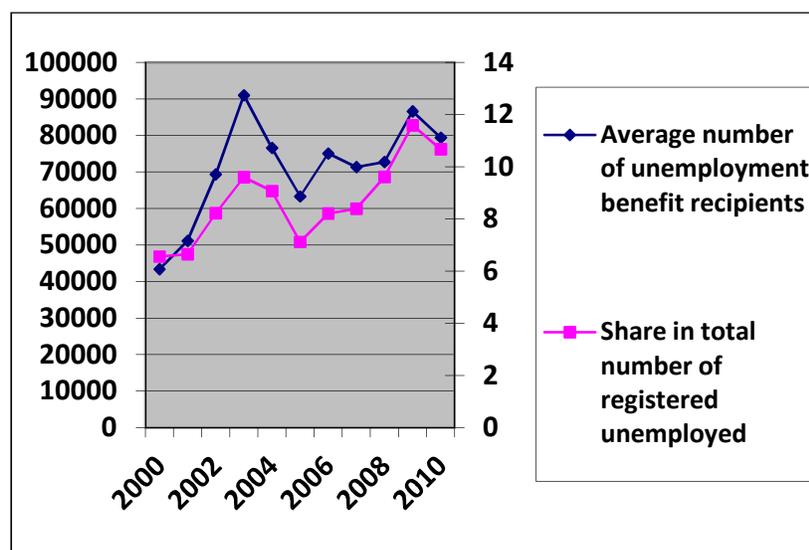
The main benefits for the unemployed consist of *cash benefit, health insurance and pension and disability insurance, and other rights*¹⁴⁷. The type of benefits has not been subject to change, only their scope.

In particular the alterations of the system of unemployment protection affected the *cash benefit*, which is the most substantial benefit. Since 2003 it has accounted for around 90 percent of the overall programmatic expenditure of the system, as previously shown under the section on financing. The cash benefit is awarded to a person with previous employment track record who has been paying contributions and who registers with the Employment Service in the legally prescribed time-frame. The benefit can be acquired only if the employment ceased as a result of

accident. The 2009 unemployment insurance act regulated the possibility of persons working under non-traditional employment contracts to gain access to the unemployment protection. Persons working under fixed-term contracts, holding temporary jobs, part-time jobs or on probationary period were previously explicitly excluded from the system¹⁴⁸. Thus, around a decade after liberalization of the labor relations in Serbia¹⁴⁹, these reforms were complemented with matching alterations of the unemployment protection framework.

Nevertheless, the number of beneficiaries has been disproportionately low to the number of unemployed, as Figure 11 shows.

Figure 11 Serbia – unemployment benefit recipients and their share in the total number of registered unemployed (2000-2010)



Source: Arandarenko and Krstic 2008: 26, Vuković and Perišić 2011b: 241, NSZ 2010, NSZ 2011 and author's calculations based on the given values.

The left axis in Figure 11 depicts the number of benefit recipients and the right axis depicts the share of the recipients in the total number of unemployed. The figure shows that a very small fraction of the unemployed are actually covered. One explanation for why the number of benefit recipients are not higher was the presumed decision of the unemployed not to claim this benefit, but rather to opt for other, more favorable programs¹⁵⁰ (Begović and Mijatović 2005: 317). Another explanation would be the tightened eligibility criteria on benefit *duration* and *amount*.

In order to obtain cash benefit, an insured person has to have worked at least twelve months without interruption or eighteen months with an allowed interruption of work for 30 days. The minimum duration of the benefit is 3 months (for one to five years of insurance) and the maximum time for which the benefit can be paid out is 12 months (for insurance longer than 25 years). Exceptionally the benefit can be paid out for 24 months to persons who have two more years to be entitled to a pension benefit according to the provisions of the pension and disability insurance. Compared to the old law (2003) these regulations (2009) are stricter for the potential beneficiaries. The minimum-maximum duration of the benefit was 3-24 months, but under more favorable stipulations regarding the insurance track record. During the previous decade (the '90s) the provisions on the benefit duration were comparatively generous, allowing benefit duration of up to 10 years for unemployed persons with over 30 years of insurance (Arandarenko 2011: 4). This created a rather stable pool of privileged beneficiaries, at the expense of the persons who became unemployed after 2003/09. As its members retired, this group of beneficiaries has also shrunk over time.

The *level of the unemployment benefit* is dependent on the previous salary track record and the contributions. The basis for determining the benefit is the average amount of the wage obtained in the last six months of employment. According to the 2009 legislation the cash benefit is 50% of the given basis. In addition, the *minimum* benefit cannot be lower than 80% of the minimum wage and the *maximum* benefit cannot exceed 160% of the minimum wage. According to the 2003 legislation these stipulations were more favorable, setting the cash benefit at 60% of the basis for the first 3 months of payment and at 50% for the rest. The minimum benefit could not be lower than the minimum wage and the maximum amount could not be higher than the average monthly wage, according to the latest publication by the state statistical office. As with the benefit duration, the replacement rate was also much more favorable before the reforms, when the benefit was 70% of the unemployed person's last wage plus 2% for each year of work experience, the minimum benefit was 50% of the average monthly wage in the country and there was no maximum limit (Begović and Mijatović 2005: 316).

In addition to the stricter conditions of the new legal stipulations, the cash benefit payment was often delayed from five to six months. The delays were a manifestation of financial difficulties, resulting from the benefits' favorable amounts, but also the state's attitude towards the

unemployed and the upholding of their rights (Begović and Mijatović 2005: 316-7).

Arandarenko suggests that in 2009 and 2010 the overall annual spending on unemployment benefits increased, not so much due to the rise in number of beneficiaries, but to the payoff of all previous benefit arrears (Arandarenko 2011: 6). The table below shows that in 2011 payments became more regular. The latest restrictions and the worsened replacement rate (2009) affected the benefit amount, which started to stagnate (see Table 22). Thus for the given month in 2007 the cash benefit was 55% of the gross value (50% of net value) of the average wage, and in 2012 the ratio was 44,6% (40,7)¹⁵¹.

Table 22 Serbia – unemployment protection, selected data (2007-2012)

Month	Total expenditure (in Dinars)	Number of beneficiary recipients	Gross benefit	Net benefit	Date of payment
January 2007	1.424.936.355	76.739	18.568	12.199	18 June 2007
January 2008	1.561.325.660	71.371	21.876	14.372	15 May 2008
January 2009	1.884.837.898	75.618	24.925	16.376	21 May 2009
January 2010	1.808.997.391	84.130	21.502	14.127	15 June 2010
January 2011	1.534.815.561	70.143	22.009	14.460	17 Feb. 2011
January 2012	1.519.911.592	66.937	22.706	14.918	23 Feb. 2012

Source: NSZ 2012 (National Employment Service).

5.2.3.3 Employment measures

The passive and active labor market policies in Serbia have not been mutually integrated. The benefit system is rigid – the support for the unemployed, either in the form of unemployment benefit or pecuniary compensation realized through the Social Program, could not be combined with other measures for (re)entering the labor market. For instance, the potential beneficiaries of the Social Program could choose between either monetary compensation or other type of assistance, such as training or self-employment assistance, but could not have both (ILO and

CoE 2007a). Additionally, unemployment benefit recipients are penalized if they formally earn income in the labor market. The 2009 act introduced a novelty, allowing subsidies of up to 30% of the net benefit for three months, to benefit recipients who find a job, but only if their employment contract is on indefinite basis. Such a measure could hardly be stimulative for labor market entrance, but there has been some modest impact, as the National Employment Service has made payments for this purpose (Arandarenko 2011: 7).

Aside from the traditional *employment mediation and counseling*, diverse *active labor market policies* have been deployed during the last decade, which come under the categories of *training*, *subsidies for employment and self-employment support*, and *public works*.

Table 23 Serbia - ALMMs spending by main program types (2002-2007)

Structure of spending (share in %)	2002	2003	2004	2005	2006	2007
Training	76,85	58,68	18,6	25,88	31	28
Job subsidies	16,84	28,79	81,1	73,94	68,6	71,8
Employment mediation and counseling	0,12	1	0,3	0,18	0,3	0,3

Source: Arandarenko and Krstic 2008: 32.

On average spending on ALMMs has been around 0,1% of GDP (Arandarenko and Krstic 2008: 42). The allocated funds have thus been too insignificant to make an impact. Assessments of the employment policies in Serbia have found the ALMMs ineffective, as a result of the level of available funds, but also their short duration, inappropriate design and related adverse effects (deadweight, substitution and displacement), complemented by overwhelming administrative workload for the NES and managerial discontinuity (ILO and CoE 2007a; Arandarenko and Krstic 2008). The programs under the subcategory of ‘employment mediation and counseling’ have by contrast been found to generate most positive outcomes, despite the fact that they have used up the least amount of resources.

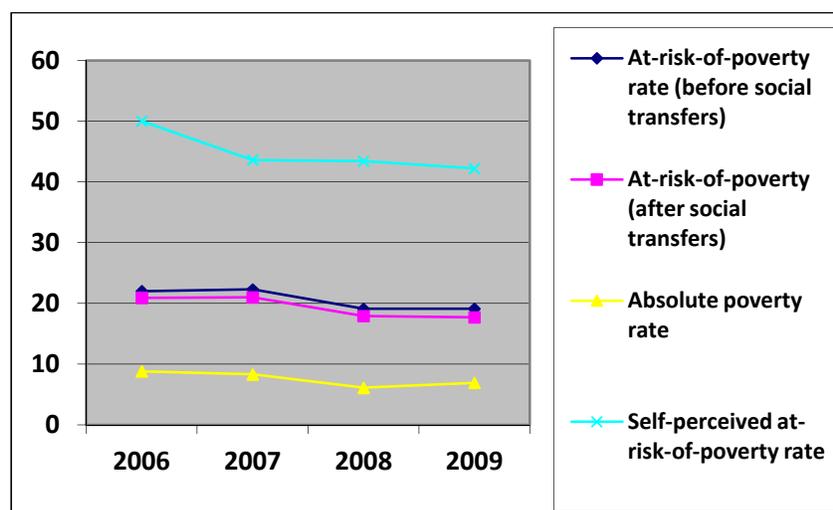
5.2.4 Social protection

Determining *poverty* level trends in Serbia may prove to be a challenging endeavor as collection of data in different periods has relied on different methodology. Some of the first studies conducted after 2000 were based on the Living Standard Measurement Survey and found that in 2002 around 10 percent of households in Serbia were living under the absolute poverty line of 2,4 US dollars per day (Bogićević et al. 2003: 18; World Bank 2003: 7). The poverty research was based on household consumption methodology, as opposed to measurement of household income which was used during the 90s. The household income methodology produced the following poverty rates: 28,9% (1995), 36,5% (2000) and 14,5% (2002) (Bogićević et al. 2003: 23). In 2004 it was decided that measurement of poverty based on household consumption becomes a regular activity of the State Statistical Office. Based on Household Budget Survey (HBS), in 2006 a poverty rate of 8,8% was registered (Government of the Republic of Serbia 2007: 19). In 2007 another study was undertaken based on the Living Standard Measurement Survey (LSMS). For comparability purposes, a recalculation readjusted the 2002 poverty level to this methodology, revised the poverty index from 10% to 14%, and measured a poverty level of 6,6% in 2007 (Statistical Office of the Republic of Serbia 2008: 10). In the cases of either approaches (LSMS or HBS, consumption- or income-based measurement) the trend has been the same – that of lowering poverty levels.

Economic growth, real wage increase and social transfers have contributed to significant poverty decline (Statistical Office of the Republic of Serbia 2008; Matković 2010; Cvejić et al. 2010). However, it is argued that the data may not be completely reliable and the image of poverty may be worse, as the surveys may not sufficiently capture the especially vulnerable categories, such as the Roma, refugees and displaced persons¹⁵² (Ibid). In the period 2002-2007 real household income grew 14,7 percent, primarily owing to growth in wages and pensions, which in 2007 comprised around 70 percent of households' income as opposed to 60 percent in 2002 (Statistical Office of the Republic of Serbia 2008: 32). Income from social insurance benefits also increased, however, with 2,1% in the income structure of an average household and 6,9% for the poorest households, their role has remained marginal. Figure 12 mirrors this weak relationship between poverty rates and social transfers. It further illustrates poverty trends, based on different set of poverty indicators - absolute poverty line and the at-risk-of-poverty rate. The absolute poverty line has been the nationally adopted indicator for measuring poverty. The data for the at-risk-of-poverty rate, which depicts the share of persons with an income below the 60% of the median

equivalent income of all the households in the population, has been obtained through the adaptation of the Eurostat definitions and methodology on the Serbian national data source collected by the HBS. The values are thus not fully comparable with the EU (Government of the Republic of Serbia 2010) but represent an important reference.

Figure 12 Serbia - poverty indicators (2006-2009)



Source: Government of the Republic of Serbia 2010 *social transfers exclude pension benefits.

The *poverty profile of households* has identified single person households, in particular, women and elderly living in a single person household as most vulnerable. Households with dependent children are also at risk, especially single parents with dependent children and two adults with three or more dependent children. Depending on the economic activity of the household members, poverty is most prominent among the economically inactive and the unemployed.

Inequality in Serbia was worse during the '90s when a handful of businessmen with close ties to the ruling elite made a fortune during a time when the rest of the population was in a crisis. Later, as measured by the Gini coefficient, income inequality fluctuated between the values of 0,29 in 2002 and 0,34 in 2005 (Cvejić et al. 2010: 23). Since then it has been dropping, reaching again the figure of 0,29 in 2009 (Government of the Republic of Serbia 2010: 23). This means that equality has been improving, also considering the fact that the Gini level in Serbia is comparable with countries that traditionally have low coefficients, however, some interpret this data as rise of "equality in poverty" (Grozdanic 2012: 16). Others find that the Gini coefficient

should actually be higher as the richest parts of the population are usually not fully covered under the survey (Bajec et al. 2008: 77).

During the '90s the system of social protection in Serbia failed to provide a basic social safety net. The extraordinary circumstances produced two contesting effects: poverty boost and paralyzed institutions.

5.2.4.1 Financing

Immediately after 2000, priority was given to the repayment of debts and system recovery for which purpose social protection was centralized. Donor funds were primarily used for settling the debt towards different cash benefit recipients, immediate assistance to refugees and displaced persons, and institutional reconstruction, while the state's resources prioritized reestablishing the regular functioning of the system. The international assistance in the social sector for the period 2001-2007 was 402 million Euros, which was 7,72% of the total international assistance (Bajec et al. 2008: 52). The donors' funds disbursement exceeded this figure only in the energy and transport sector.

Funds for social protection are collected on a non-contributory basis. Government *spending* between 2001 and 2009 was below two percent of GDP: in 2002 it was 1,8%, and after experiencing negative trends reached this level again in 2009 (Vuković and Perišić 2011b: 257). Ninety percent of the social expenditure on welfare is covered by the central budget (Bajec et al. 2008: 47). A province may cover some additional assistance and the local municipalities usually provide resources for day care and home assistance as well as exceptional assistance for emergency family needs (Bajec et al. 2008: 48). Additionally, two funds were established: the *Fund for financing the Associations of Disabled Persons* (2002) and the *Social Innovation Fund* (2003) with the purpose of supporting the development of welfare provision on local level and encouraging partnership with non-governmental actors. The Funds have been financed by international donations, the central budget and local communities' budgets. They have operated on a project basis, for which only the Social Innovation Fund has so far spent 6 million Euros.

5.2.4.2 Benefits and Coverage

The system offers *social assistance, institutional and non-institutional care, and social work services*¹⁵³. Social assistance consists of various cash benefits, such as family allowance, care supplements, professionalization assistance, and one-off assistance. Institutional and non-institutional care include placement in institutions, foster care or day care. All cash benefits considered, fewer households receive some sort of benefit: 14,7 percent (2007), as opposed to 18 percent (2002), in particular as a result of the reduced humanitarian aid, child benefit and one-off municipal cash subsidy (Statistical Office of the Republic of Serbia 2008: 71).

Important legislative changes coming into effect in 2004 affected the *family allowance* through: a) introduction of a uniform national absolute poverty line as access threshold for the allowance, replacing the different regional and municipal thresholds; b) restricting the right to the allowance to 9 months in one calendar year for families where the majority of family members are fit for work; and c) indexing the eligibility threshold and the benefit according to the cost of living, replacing the wage indexation.

Table 24 Serbia - average number of family allowance recipients (2000-2010)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households	30.736	37.714	38.797	42.615	45.441	43.912	47.911	50.843	54.533	59.624	65.816
Individuals	66.560	85.121	88.483	100.575	109.467	110.906	123.491	131.456	140.289	168.347	167.914

Source: Matković and Mijatović 2009: 78 (for 2000-2007); Vlada Republike Srbije 2011: 153 (for 2008-2010).

The introduction of a unique national poverty line contributed to an increased number of recipients of family allowance, but also the state's commitment to repaying the social assistance debts and the establishment of new financing initiatives (Social Innovation Fund) have encouraged new applicants (Matković and Mijatović 2009: 24). However, the legislative changes contributed to change in the structure of beneficiaries and became more unfavorable for families whose members are fit for work. The altered indexation of the eligibility threshold and the benefit contributed to 13,5% expenditure savings (Matković and Mijatović 2009: 33). Despite the improved number of beneficiaries and better spending (0,12% of GDP in 2007 compared to

0,08% in 2001)¹⁵⁴ (Matković and Mijatović 2009: 31), only 1,4 percent of all households in Serbia receive this kind of material support (Statistical Office of the Republic of Serbia 2008: 72).

The *child benefit* is also an important part of the system of social protection. While previously, the child benefit was an important population policy measure, following reforms¹⁵⁵ it has been transformed into a poverty alleviation measure. Means-testing was strengthened, a national access threshold to child benefit was established, indexation of the eligibility threshold and the benefit was changed according to the cost of living, the benefit as a universal right to every third and subsequent child in certain municipalities was abolished, the benefit was limited maximum to four children per family and made conditional upon elementary school attendance.

Table 25 Serbia - average number of child benefit recipients (2000-2010)

	2000	2001	2002 (I-V)	2002 (VI-XI)	2003	2005	2007	2008	2009	2010
Families	280.139	345.238	399.876	261.691	273.834	260.630	228.400	208.958	203.400	227.160
Children	486.147	589.584	682.315	482.256	499.773	487.268	436.778	390.412	390.533	435.679

Source: Matković and Mijatović 2009: 16 (for 2000-2007); Vlada Republike Srbije 2011: 155 (for 2008-2010).

The number of child benefit beneficiaries plunged immediately after the introduction of reforms. Still, different categories of beneficiaries have been differently affected. The reforms are considered to have had an effect of improved targeting towards the particularly poor and vulnerable (Matković and Mijatović 2009: 44). The child benefit is considered to be comparatively better targeted, despite worsened spending levels: 0,31% of GDP in 2007 and thereafter, compared to 0,82% in 2001 (Matković and Mijatović 2009: 21; Vlada Republike Srbije 2011: 155).

Over time, the *level of welfare benefits* increased, in particular for maternity allowance and care supplements, which is why they are shown in the table below. The level of the family allowance is way beyond the defined poverty line¹⁵⁶, such that it does not cover even basic needs (Vuković and Perišić 2011b: 246; Vlada Republike Srbije 2011: 151). In the case of the family allowance,

a contradiction stands that households living above the poverty line receive a higher benefit than households below the poverty line. Therefore, its targeting and effectiveness have been criticized (Matković and Mijatović 2009: 44).

Table 26 Serbia - average monthly amounts of welfare benefits per household, in Dinars (2002 and 2007)

Type of program	2002				2007			
	Total	Below poverty line	First quintile	Above poverty line	Total	Below poverty line	First quintile	Above poverty line
Care allowance	2.514	2.200	2.166	2.595	6.808	5.504	6.182	7.021
Family allowance	2.761	3.310	3.045	2.341	5.112	4.569	4.527	5.426
Child benefit	1.450	1.639	1.589	1.417	2.889	3.420	3.241	2.803
Maternity allowance	1.303	1.060	2.854	1.310	8.571	6.085	6.393	8.697

Source: Statistical Office of the Republic of Serbia 2008: 72.

5.2.4.3 Structure

The social protection system of Serbia is highly centralized. The *Centers for Social Work* are the main institutions in charge of social care management. Although founded by the local municipalities, they in fact execute their functions on behalf of the central government. A network of 156 institutions provides primarily accommodation, but also other care services for children and youth (in particular children and youth deprived of parental care or with development disabilities), families, persons with mental disorders, adults with disabilities, and old persons and pensioners (Statistical Office of the Republic of Serbia 2011: 71). The highest is

the figure of the institutions for old persons and pensioners – 118 institutions, out of which 37 are public and 81 are privately owned.

Various reform projects have been initiated since 2002 aiming to reorganize the welfare sector based on the principles of deinstitutionalization, decentralization and development of alternative provision of social care (Begović and Mijatović 2005; Mijatović 2008). The funds which were established with the purpose of facilitating these processes have already been mentioned. Projects have been positively evaluated with 96% beneficiary satisfaction (Ministry of Labor, Employment and Social Policy 2005: 8). While the projects' success thus seemed undisputed, a risk of "over-projectization of the reform" (Ministry of Labor, Employment and Social Policy 2006: 26) was hampering the projects' transformation into a sustainable systematic occurrence. The political instability and administrative weakness deterred the local authorities to resume new responsibilities in the area of welfare.

Thus, the state has kept its dominant role as provider and manager of social care. To a great extent people have come to rely on non-state sources of support. Family, friends and bank loans have become a substitute for a social safety net. In contrast, institutions, state or local institutions, and civic organizations would be the last resort to turn to in case of an urgent financial need (Cvejić et al. 2010: 88).

5.3 Political Context

5.3.1 The 1990s

In Serbia the transition towards a new political order was postponed for a decade. Despite formal pluralization, *de facto* the rule of the former communist elite was not discontinued. The former communists founded the Socialist Party of Serbia (*Socijalistička Partija Srbije-SPS*), which won the first multiparty elections in 1990 and following subsequent electoral victories (1992, 1993 and 1997) managed to stay in power for a decade. At the first multiparty parliamentary elections in Serbia (1990) the SPS won a considerable majority of the votes: 46,1% (see Annex II), whereas its president, Slobodan Milošević, won 65,3% of the votes at the presidential elections, thus becoming Serbia's president already in the first round (Goati 2001: 37). Milošević remained

Serbia's president until 1997 and between 1997 and 2000 he was president of the Federal Republic of Yugoslavia.

The popularity of the communists and especially Milošević can be traced back to the year of 1987 when the nationalist fraction, headed by Milošević, overthrew the leadership of the League of Communists (Orlović 2008a: 33). In response to the 1981 demonstrations of the Kosovo Albanians demanding a Republic, the issue of the status of Kosovo became a top political priority in Serbia (Pesić 1998: 29). This conflict dividing the Serbian intellectual and political elite was eventually resolved in favor of the hardliners who subsequently restricted Kosovo's autonomy and started a campaign which stimulated ethnic-based resentments. The adverse effects of this approach were soon reflected in the wars which followed across the territory of the former federation. As Orlović argues: "Nationalism was the impetus of war, and the war was nationalism's additional generator" (Orlović 2008a: 34 [own translation]).

In addition to the nationalistic platform, the SPS ruled based on the control of state authorities, media manipulation, monopoly over resources, as well as thanks to a dispersed opposition. The political regime during the '90s in Serbia was essentially *authoritarian*, even though it found formal democratic confirmation in elections (Orlović 2008a: 46; Uvalić 2010: 46). However, very often, even the democratic minimum was compromised, starting from passing the Constitution and deciding on the electoral design before holding the first multiparty elections (1990), to permanent adjustment of the electoral legislation to the regime's interests, besides numerous electoral irregularities. This practice culminated in 1996 when by court orders the results of the local elections were changed in favor of the ruling party (Goati 2001: 199). The massive civic protests which ensued were quelled in a similar manner to previous demonstrations. The regime did not shy away from using military and police force during the protests, but also continuously carried out harassments, intimidations and eventually assassinations of prominent figures.

The success of Milošević's SPS was additionally heightened by oppositional fragmentation. The oppositional parties often opposed each other in ideological and personal sense, and "there was hardly a party that did not flirt with the regime" (Orlović 2008a: 40 [own translation]) to a higher or lesser extent at a given point in time. For example, the first government of the Federal

Republic of Yugoslavia included some distinguished members of the Democratic Party (*Demokratska Stranka-DS*). The originally oppositional New Democracy (*Nova Demokratija-ND*) exited the oppositional camp and provided key support to the new SPS government following the 1993 parliamentary elections. The leader of the oppositional Serbian Renewal Movement (*Srpski Pokret Obnove-SPO*), Vuk Drašković, who led the 1991 anti-Milošević demonstrations, participated in the 1996 protests, and was a victim of police brutality, later became part of the federal Yugoslav government (1999). That is how peculiar the relationship between Milošević and his opposition was (Ivanji 2008: 148). At the same time, the relationship between the two most influential oppositional parties at the time, the DS and SPO, was strained, and although they overcame mutual differences to jointly participate in the 1996 local elections, they soon parted again, as DS and other oppositional parties did not support Drašković's candidacy for President of Serbia in the 1997 presidential elections. The split was on a personal level, but Boduszynski writes that "it was also related to the national orientation, with Djinjić [leader of DS] increasingly taking a pro-Western approach and Drašković continuing to espouse a nationalist and monarchist program" (Boduszynski 2010: 186-7).

In addition to the use of nationalism and suppression, it was *political opportunism* which upheld the power constellation of the nineties. Milošević enjoyed the support of the extremist Serbian Radical Party (*Srpska Radikalna Stranka-SRS*) and was able to create room for maneuver through the founding of satellite parties such as his wife's Yugoslav Left (*Jugoslovenska Levica-JUL*) at a time when the SRS withdrew their support to Milošević after he had agreed to the internationally backed Vance-Owen peace plan for Bosnia and Herzegovina. When nationalism's appeal was waning, Milošević turned to the socialist platform of his party. He successfully balanced *awakened national feelings* and *social demands* to his own advantage.

5.3.1.1 The Politics of Welfare of the 1990s

People were basically interested in keeping their living standard, their jobs and benefits and had little interest in reforms (Boduszynski 2010: 209). The policies in favor of the *status quo* created the illusion that the SPS was genuinely concerned with the general well-being of Serbia's citizens. The anti-privatization mood of the government allowed for artificial upholding of full employment in failing social enterprises. Legislative continuity left the welfare system intact.

Between 1991-1993 the government even increased public spending in order to finance the wars in Croatia and Bosnia, but also to support refugees and displaced persons, maintain jobs through enterprise subsidies and uphold social transfers (Uvalic 2010: 55). However, in reality the wars financially exhausted Serbia and contributed to economic collapse. As the country was internationally isolated, it had no access to capital, neither as loans from the International Financial Organizations nor in the form of investments. Therefore, the government decided to squeeze out the last foreign currency savings from the population (Uvalic 2010: 69-70). This practice, compounded by rampant inflation, effectively deprived the population of their earned and current income.

Although after the end of the war (1995) the macroeconomic picture started somewhat improving, the measures undertaken were both short-lived and halfhearted. Their effects were short-lived due to the looming Kosovo crisis (1998). Measures were halfhearted since a genuine commitment to structural reform was lacking. Boduszynski argues that Milošević was wary of reforms mainly out of belief that they might undermine his power which rested upon a vast web of political and economic patronage (Boduszynski 2010: 207-8). Reforms were also opposed by various social strata: from elite members who reaped large profits from close ties to the regime, or through various state administrators, to larger segments of the population who were given a false sense of security (cf. Lazić 2011). Conversely, the gradual worsening of the socio-economic conditions made people more state dependent and powerless to revolt. Thus, Milošević continued playing the card of exploiting state resources, financially exhausting the population, and manipulating nationalist and communist rhetoric to successfully stay in power. It was only after an external intervention (NATO's military operation in 1999) that the oppositional forces could unite and mobilize disillusioned masses seeking change. The regime's attempt to hijack the results of the 2000 elections – won by the united opposition – did not stand a chance. It was only after a couple of days of massive protests that Milošević resigned.

5.3.2 The 2000s

Following the fall of Milošević, Serbia embarked on transition for the second time (Uvalic 2010: 139). The second decade was characterized with high political volatility which also took its toll on the pace and content of social policy reform. In the period between 2000 and 2010 Serbia held

four parliamentary elections (2000, 2003, 2007 and 2008) and four presidential elections (2002, 2003, 2004 and 2008), out of which the first two had been proclaimed invalid due to low voter turnout.

Following the ousting of Milošević, a transitional government was created with the task to prepare the extraordinary parliamentary elections. The government was headed by SPS's Milomir Minić and its other members were from SPO and the coalition DOS (*Democratic Opposition of Serbia*). According to Orlović, this was the “first big mistake” (Orlović 2008a: 56) of the new political forces, since that period was used for consolidation of certain criminal structures of the old regime. The second mistake was the failure to constitutionalize the regime change, which would later become a source of conflict among coalition partners (Ibid.).

The first democratic government in Serbia was formed in 2001 and consisted of political representatives of the parties comprising the DOS coalition and of experts. It was headed by DS's president Zoran Djindjić, a modern, pro-reform and western oriented politician. He was convinced that profound and rapid changes would be necessary to transform Serbia and in accordance to this belief developed a pragmatic attitude towards the existing legal framework. According to him “A bad system cannot be changed piece by piece in accordance with the rules of that same system” (cited in Antonić 2011: 105 [own translation]), thus opting to circumvent the rules which hindered Serbia's transformation. However, this view was not shared by all coalition members and it soon became the next big stumbling block to Serbia's development. The major clash between the two biggest coalition partners, the Democratic Party and the Democratic Party of Serbia (*Demokratska Stranka Srbije-DSS*), was over the approach to dealing with the past. While the DS was promoting a pragmatic agenda for rapid break with the past, the DSS advocated gradualism under the given legal framework. In principle, the cooperation with The Hague Tribunal, the Kosovo issue and the unfinished state-building process would continue to burden the Serbian political scene throughout the whole transition.

The confrontational relationship between Djindjić as the Prime Minister, and Vojislav Koštunica as President of the FRY and leader of the DSS, reflected not only their opposing views but also power struggles. In 2001 Koštunica withdrew the two DSS ministers in the Djindjić government, one of which was the health minister Obren Joksimović. When the DS decided to take away the

mandates of the DSS deputies, the Parliament was paralyzed for a year awaiting the Constitutional's Court decision regarding this move. In 2003 Prime Minister Djindjć was assassinated. His assassination was an extreme reaction of criminal elements of the old regime to his efforts to combat organized crime and commitment to full cooperation with The Hague (Ivanji 2008: 152; Boduszynski 2010: 223). There seems to be a consensus that the loss of Djindjć meant a serious blow to Serbia's progress (Orlović 2008a; Boduszynski 2010; Uvalic 2010).

The government formed after Djindjć's assassination did not hold for long and early elections were called in 2003. The polarization among the parties that brought changes to Serbia came to light through the dismantling of the DOS coalition and the parties' independent participation in the elections. Their mutual confrontations also cost them half the votes won at the previous election. DSS did not accept the offer of the Radicals (SRS), who won the highest percentage of the popular vote: 27,6%, to form a government, but also refused to form a government with the DS, because of their earlier conflicts. Eventually, a new minority government comprising the DSS, G17 Plus and SPO-NS, headed by the conservative Koštunica was elected thanks to the parliamentary backing of the Socialists (SPS).

The 2004-2007 minority Koštunica government was weak and unstable. Koštunica's position was especially weakened as a result of DSS's poor performance at the presidential and local elections (Stojiljković 2008: 449; Antonić 2011: 105), whereas the oppositional DS's position strengthened after its leader, Boris Tadić, was elected President of Serbia in 2004. Nevertheless, the government managed to overcome various scandals and survive despite the highly volatile political situation (Orlović 2008a: 172). The coalition partners eventually rifted over the standstill in Stabilization and Association Agreement talks with the EU, which occurred due to the country's failure to cooperate with The Hague. As a result, the Deputy Prime Minister Miroljub Labus (G17 Plus) resigned from his post, which caused a government crisis. In the meantime, based on the result of an independence referendum, Montenegro exited the state union with Serbia. The international context, i.e., the acceleration of the negotiations on the status of Kosovo and Montenegro's secession broke the two year deadlock on the Serbian Constitution (Orlović 2008b). Serbian political forces hurriedly reached a consensus on a new Constitution, replacing the one of 1990. Yet, this seeming political success was overshadowed by the results of

the parties' calculus. The constitutional solutions favored the positions of the conservative and nationalist forces; it was a missed opportunity for both a radical break with the past and democratic consolidation (ICG 2006b). The preamble emphasized that Kosovo was a part of the Serbian territory, although in reality Kosovo has been ruled by UN administration since 1999. The Constitution was subsequently confirmed at a referendum which was characterized by low voter turnout of 54,91% (RIK 2012). Despite the strong campaign, the parties failed to mobilize wider popular support. The constitutional requirement for calling elections thus simultaneously satisfied the demands of the oppositional parties¹⁵⁷ and allowed the parties in power to save face (Stojiljković 2008: 452).

Following the 2007 parliamentary elections, the second Koštunica government (2007-2008) took several months to form. A coalition involving DSS, D, and G17 Plus finally came together after strong pressure by Western diplomats (ICG 2007: 7) who opposed the Radicals' rise to power. Similar to the previous one, the new government was also deeply divided and short lived. The major confrontations revolved around the approach towards European Integration with reference to Kosovo. In the aftermath of Kosovo's unilateral declaration of independence the Serbian government fell and new parliamentary elections were called for May 2008.

In a bid to support the pro-European forces in the elections, the EU signed the Stabilization and Association Agreement and the Interim Agreement on Trade and Trade-related Issues with Serbia some ten days before the elections, which together with the dialogue on visa liberalization started earlier that year, resonated with the public. The DS-led coalition "For a European Serbia" (*Za evropsku Srbiju-ZES*) won the majority of the votes: 38,4%, and subsequently formed a government together with the SPS-PUPS-JUL coalition and some minor parties. By choosing to participate in the new coalition government, the SPS demonstrated a pragmatic approach to politics and used the opportunity to rehabilitate itself within a pro-European government.

One of the main priorities of the new government on the European agenda was to reconcile with the past. In 2010 the Serbian parliament passed a resolution that condemned the 1995 massacre in Srebrenica, Bosnia and Herzegovina, and that same year Serbia's President and DS leader, Boris Tadić, paid a tribute to the victims in Vukovar, Croatia apologizing for the war crimes committed by Serb forces in 1991 (Balkan Insight 2010; Barlovac 2010). In 2011, the extradition

of the last remaining fugitives sought by The Hague, as well as the start of talks with Prishtina, gave a new impetus to Serbia's EU accession process.

However, in the meantime, the situation in North Kosovo, where the majority of all Kosovo Serbs live and which is *de facto* not under the control of the Kosovar authorities, destabilized and even halted the bilateral talks. The European Commission recommended candidate status for Serbia, but upon the condition of resumption of dialogue and normalization of Serbia's relations with Kosovo. The European Council postponed taking a decision on the matter of the candidate status for 2012, making it also conditional upon improved implementation of the agreements reached in the dialogue with Prishtina, regional cooperation and increased cooperation with EULEX and KFOR (European Council 2012). Serbia's deputy prime minister for EU integration, Djelić (DS), resigned after the European Council's decision, while President Tadić kept up the pro-European rhetoric. In 2012 Serbia gained EU candidate status after the government had made a series of concessions, which was used by the oppositional parties. Reinforced by the government's unsatisfactory performance in other areas this contributed to a power shift at the 2012 elections.

5.4 The Politics of Welfare after the Regime Change

5.4.1 The Djindjić government (2001-2003)

Following the regime change in 2000 Serbia was economically and socially devastated. The new Djindjić government set itself an ambitious pace of reform for a swift recovery. In fact it was during the rule of this government that most reforms, including in the area of social policy, were conducted. The renewal of the membership in the international financial institutions (the IMF and the World Bank) provided Serbia access to the necessary capital to start restructuring. The reform package was aimed at macroeconomic stabilization, economic liberalization and privatization of socially owned enterprises (Bartlett 2008: 49). The liberal orientation of the government was balanced out by its social policy agenda. The shock therapy approach was moderated by socially sensitive policies, reflected in maintenance of high public spending, continued subsidizing of loss-making enterprises and introduction of a Social Program that accompanied the privatizations in the period 2002-2003 (Pavlović 2006: 269).

During the nineties, the situation at the *labor market* was such that lay-offs were officially not permitted; however the standstill in production had unofficially left the workers without a job and pay, and had thus contributed to a flourishing informal labor market activity. After 2000, the economic restructuring and privatization contributed to official growth in unemployment. With the adoption of the new Labor Act (2001)¹⁵⁸, the government liberalized the labor market, allowing for more flexible conditions for employment and lay-off. Simultaneously, the government launched a Social Program providing severance payment and other benefits to workers who had lost their jobs since 2001 (ILO and CoE 2007a; Mijatović 2008). Though the absorption capacity of the labor market proved low, except the informal sector, which was difficult to eradicate despite reform, the social policies which backed the liberalization process contributed to maintenance of social peace. Thus, Pavlović argues that some social protests which occurred in the period 2002-2003 were mainly an attempt to prevent privatization and not a reaction to it (Pavlović 2006: 272). He further underlines that the only strike which took place in a privatized company during that period was in a company which had not taken any obligations with respect to the social program and had been privatized under dubious conditions.

The *status-quo* policies of the nineties had formally sustained the prescribed social rights, but in reality *pensions and social benefits* were severely affected by delays in payment and inflationary tendencies. Additionally, the social infrastructure was damaged during the NATO military intervention. Following the regime change the government prioritized both the rebuilding of the welfare system as well as its reform. Arrears in social benefits were repaid and institutional facilities in the health- and social care sector were restored mainly thanks to international donations (Bajec et al. 2008; Vuković and Perišić 2011b). Concurrently, reforms were initiated with the purpose to achieve macroeconomic stability through public expenditure cuts, which was one of the main conditions for access to the loan arrangements with the international financial institutions (Bajec et al. 2008: 112).

Thus, as regards the *pension system*, macroeconomic stability was the driver behind the parametric reforms through eligibility criteria tightening and alteration of the benefit calculation formula. There was however a dilemma whether a three-pillar model, according to the one developed by the World Bank and offered to countries in transition would be an option for Serbia. Eventually this idea was rejected, as the then Minister for Social Affairs Gordana

Matković, put it, primarily due to the existing system's deficit, high transition costs, underdevelopment of the financial markets in Serbia and lack of control mechanisms, as well as insufficiently persuasive advantages of its introduction in other countries (Matković Interview; also in Begović and Mijatović 2005: 340). The government's resoluteness, and in particular, the Minister's personal authority, was the reason why the World Bank backed down, without insisting on its initial proposal and it eventually evaluated the decision positively (Arandarenko and Golcin 2007: 180). The Bank continued to be involved in the preparation of the voluntary pension insurance (Begović and Mijatović 2005: 343).

In the *healthcare sector* the focus was on reestablishment of the medical infrastructure, reconstruction, and procurement of medical equipment and supplies. Furthermore, numerous proposals were drafted and documents formulated in an attempt to develop a strategy for the Serbian healthcare system. Policy makers decided to base the future healthcare policy upon inherited traditions and the principle of solidarity, but at the same time initiating reforms in line with the country's financial capacities (Begović and Mijatović 2005: 359). Donations contributed to reinstating the infrastructure and the international community launched simultaneously many reform initiatives (cf. Simić et al. 2012). Next to the need to revitalize medical capacities, the healthcare system faced serious financing problems related to accumulated debts and insufficient revenues versus growing expenses. The international actors pushed for rationalization of costs in the public healthcare provision, through a variety of strategies: introduction of a new incentive-based financing model and attributing a gate-keeping role to primary care, devising a basic health insurance package, and development of country specific models for the future financing of hospitals (Begović and Mijatović 2005: 363; Simić et al. 2012: 117-121). At the time changes were in their initial phase. The drafting of reforms was slowed down mainly by institutional inertia and stakeholders' opposition.

Thanks to the generous international donor support, the basic *social safety net* in Serbia was reintroduced by 2003 (Begović and Mijatović 2005: 348). In an attempt to alleviate the consequences of the past decade, the state monopolized the competences in social protection, only to simultaneously initiate reforms for reduction of the role of the state in welfare provision and increased individual and family responsibility, rationalization of state aid through targeting, as well as opening possibilities for decentralization and pluralization of social services. The

legislation and strategy documents developed during this period laid the ground for the Serbian social welfare framework of the coming decade. In line with the priorities set out in the *Poverty Reduction Strategy* the government opted for a system of social protection strictly targeting the most vulnerable groups (Vlada Republike Srbije 2003). The strategy was based on the government's understanding that economic growth and employment were the best way out of poverty, and that the state should conduct an active social policy intervening only against the risks that inevitably arise from transitional economic restructuring. Consistent with its liberal orientation and commitments taken towards the international organizations, the government had initiated welfare state withdrawal, considering it a remnant of socialism (cf. Vlada Republike Srbije 2003: 103).

The financial donor support on which the government's reform program relied was politically conditioned. Motivated by a threat of the international donors to suspend aid, the government swiftly decided to hand over Milošević to The Hague Tribunal (Boduszynski 2010: 223) which caused a political crisis within the ruling coalition. The DS-DSS split immobilized the work of the Parliament and the Government, which eventually decelerated the pace of reforms.

5.4.2 The two Koštunica governments (2004-2007, 2007-2008)

Following the progressive Prime Minister Djindjić's assassination in 2003, the first - not considering the transitory government - Koštunica government (2004-2007) slowed down the overall process of reform. This was partly a result of the more conservative approach of Koštunica and partly because the government was often blocked by the coalition partners, which treated the ministries as spoils. The government was essentially "feudally" organized (Orlović 2008a: 174), as each party exercised strong control over a certain ministry or public company it was 'in charge of' and there was little mutual coordination. Additionally, rows between coalition partners deprived the government of constructive energy, necessary to take reforms forward. Koštunica did not appear to intervene in the inter-party's disputes (ICG 2004: 3) and decided to focus on issues that were most important for him instead, such as Kosovo, which he brought back to the center of political debate (Antonić 2011: 106).

The basis of the first Koštunica government's socio-economic policies was the announcement of a revision of previous privatizations, delay in implementation of the bankruptcy law, alteration of

the Labor Act, and the upholding of a strong public sector (Pavlović 2006: 272). Already as part of its pre-election campaign the DSS announced a revision of the previous government's privatization program, which it deemed corrupt and irregular, and a return of the privatized enterprises into state ownership (ICG 2004; Pavlović 2006). Eventually, only one revision was carried out, but the government decelerated future privatizations. Furthermore, bankruptcy procedures under the old legislation were rather slow and additionally burdened the restructuring process. The new bankruptcy law which was adopted in 2004¹⁵⁹ envisaged faster procedures, however the government decided to delay its implementation in order to prevent further employee lay-offs (Pavlović 2006: 274). Additionally, the government initiated a revision of the 2001 Labor Act, with the intention to counterbalance some of its solutions for more labor market flexibility; however, given the strong reactions from the International Financial Institutions, the initial version was finally "watered down" after "a typical late-night crisis session of government members with the World Bank representatives" (Arandarenko and Golicin 2007: 177). Despite various reactions to the new law, ranging from criticism to positive evaluation (cf. Pavlovic 2006; ILO and CoE 2007a), legislative changes were neither fundamental *per se* nor did they introduce a new reality, due to their weak or uneven enforcement, and due to already established practices in the labor market (Arandarenko and Golicin 2007: 177-8). The debate revolved too narrowly around the extent to which the Serbian labor market should be liberalized and neglected other factors which impeded employment. One peculiarity of Serbia was that in 2001 a regressive labor tax system was introduced, which effectively discouraged job creation in labor-intensive sectors and reinforced informal practices (Arandarenko and Golicin 2007; Arandarenko and Zelović 2009). It has been unclear how such a tax rate which disadvantaged the lower-paid workers and poorer segments of society could come about. It was abolished in 2007 after a belated intervention by the World Bank (Arandarenko and Golicin 2007: 179).

In any case, the Koštunica government had opted for a strategy of postponed transformation in order to dilute its impact and preserve social peace. Slow privatization and delayed bankruptcies have contributed to sustaining a broad public sector. In addition to maintaining jobs, public enterprises executed other social functions as well such as providing cheap electricity or underpriced public transport (Uvalic 2010: 185). Not less important was their political function, as public companies were largely subsidized by the state budget. Following elections, they were

divided among coalition members as political spoils, who would then put party officials or people close to the party on top positions in these companies (Orlović 2008a; Uvalic 2010).

High public expenditure was sustained mainly thanks to the improved revenue collection which was achieved introducing the value added tax with the support of the IMF (Pavlović 2006: 275; Orlović 2008a: 177). Although between 2002 and 2005 general government expenditure as percentage of GDP was reduced¹⁶⁰, economic growth contributed to sustaining the levels of spending. Public expenditure was used to finance the public sector jobs, wage increases and social transfers. Spending on social transfers by 2007 was kept around 20 percent of GDP (Vuković and Perišić 2011b: 257).

In addition, the process of reforms of the *welfare sector*, started in the previous period was continued, albeit more cautiously. The 2005 *pension regulation changes*, which additionally raised the retirement age and changed the indexation formula, were introduced under strong pressure of the IMF (Mijatović 2008; Perisic and Vukovic 2009) in order to tighten the spending on pensions. The requirements were met with sharp criticism by the parliamentary parties and were alleviated by adoption of transitional clauses that postponed the effects of the amendments for after 2009/2010 (Perisic and Vukovic 2009: 4).

The *healthcare sector* during this period was characterized by intensive legislative activity. Various projects and programs were also implemented in cooperation with or supported by international actors, such as the World Bank, the World Health Organization, the European Union (Perisic and Vukovic 2009: 14; Simić et al. 2012: 118-20). The political continuity in the Ministry of Health, which was held by the pro-reform G17 Plus, provided for relative stability and maintenance of the direction of reform. However, clear-cut effects are difficult to make out. Vuković found that frequent changes in the regulation, inconsistencies and ambiguities of the legal provisions, functional problems, and finally lack of a clear strategy have become the major feature of the Serbian healthcare system (Vuković 2009: 138). Thus, despite the political continuity in the Ministry, the pace of reform was slow, due to the political importance of the Health Insurance Fund that was the central institution for financing of the healthcare system (Arandarenko and Golicin 2007: 181).

As regards *labor market policies*, apart from the initiated revision of the Labor Code, not much changed. Unemployment protection was provided under the same conditions and the Social Program continued to apply. With the adoption of the Constitution (2006), the category of ‘social property’ was finally abolished, which enabled closure of all social enterprises by 2008 (Arandarenko and Zelović 2009: 9). All public enterprises became state-owned. Here it should be noted that notwithstanding the government’s strategy to maintain a broad public sector, related to the pressure coming from the IMF, by 2008 employment in public companies was reduced by 15 percent (Arandarenko and Zelović 2009: 9).

With regard to *social protection*, apart from minor legislative changes, the principles set out by the previous government were not brought into question. Social benefits were designed in line with budgetary constraints. Over time, such an approach even contributed to expenditure savings, while the improved economic and budgetary situation did not affect the policies. Politically, the alteration of the social protection policies was hardly a priority, given the fact that the poor are neither influential nor politically interesting, as they do not represent a significant portion of the electorate (cf. Matković 2010). Although workers and pensioners have not been powerful players in the policy-making domain, as will be shown below, nevertheless they were politically more important than the weak and highly dispersed poor and socially disadvantaged population; therefore, the government chose to concentrate on the former. In this respect, the government’s social policy was guided by pure pragmatism rather than higher ideological beliefs.

Essentially, Koštunica’s government conservatism, i.e., its general resistance to change, was a reflection of DSS’s disagreements with the Djindjić’s government economic policies, but also of the presence of other political issues, all of which required a lot of energy and eventually pushed aside social policies as low priority. Social policies showed a high degree of continuity, which suggests lack of ideas on the side of the new government as well as lack of alternatives to the cooperation with the international actors which pursued their own agenda. The social policy continuity was additionally reinforced by the fragmentation of the coalition partners and their inability to agree on a single strategy, which is why they let themselves be guided by inertia.

The fragmentation came to light most visibly during the second Koštunica government (2007-2008), which, firstly took several months to form, and secondly, was of short duration. As the previous government, this one was also feudally organized and the parties divided up their spheres of influence over the ministries, public bodies and enterprises, although there were appointments of officials and issues the coalition partners could not agree on (cf. ICG 2007). The budget was never adopted by Parliament, and finally, the government split on Kosovo and the approach towards European integration.

5.4.3 The Cvetković government (2008-2012)

Following the 2008 parliamentary elections and the victory of the pro-European forces, the DS-led coalition government was formed, with Cvetković as Prime Minister, who was previously Minister of Finance in the 2007-2008 Koštunica government and was seen as more of a technocrat rather than a political figure. In socio-economic sense, the government prioritized economic and employment growth, improvement of the living standard and reduction of social and regional differences (Vlada Republike Srbije 2008). However, the government's ambitious program fell short of its projected expectations of 7 percent annual growth rate and 200.000 new jobs in four years, mainly as a result of the effects of the global economic crisis. It is hard to conclude, however, that had it not been for the crisis, the government would have achieved its goals, considering some of the inherent problems of Serbia's transition.

Given the crisis, the government opted for policy measures which worked against the above-mentioned goals. In particular, with the support of the International Financial Institutions, the government introduced austerity measures in the field of social policies. Thus, in response to IMF's loan requirements, the government committed itself to reduce the share of current spending in GDP to 32½ percent by 2015, reduce public administration staff, keep wages and pensions frozen in nominal terms throughout 2009 and 2010, reform the pension system, reform the health system along the lines of the World Bank recommendations, and finally improve the targeting of social benefits (Government of the Republic of Serbia 2009).

In 2008 the pension benefits were raised as a result of the pre-electoral promise of the Pensioners' Party (*Partija ujedinjenih penzionera Srbije-PUPS*) (Matković, interview). However, soon thereafter, related to the commitment to the IMF, the benefit levels were frozen.

The *pension system changes* which came through in 2011, altering the indexation and reducing the privileged position of women and other categories, favored the financial sustainability of the system at the expense of the future benefit levels. The government stood by its decision despite sharp protests of pensioners' organizations, trade unions, and reactions of some experts (Vuković and Perišić 2011a: 9). The fact that the Pensioners Party was part of the ruling coalition did not make a difference, as it voted in favor of the new legislation (Vuković and Perišić 2011a: 14).

Similarly, changes in the *labor market regulation* were unilaterally adopted by the government, circumventing the objections raised by the social partners (Andrić 2010). In line with the goals set out in the program for alleviation of the effects from the global economic crisis, government's measures were drawn up to reduce employers' costs and keep up the declining level of employment. The state took over covering outstanding contributions for pension and disability insurance, in order to secure uninterrupted realization of rights derived from employment and to ease social tensions, while the contribution arrears of economic entities were transformed into a long-term obligation to be repaid under a favorable interest rate (Andrić 2010: 11). Tax and contribution evasion has been a pervasive problem throughout the transition and one of the reasons behind the deficit of the public funds. By thus financially intervening in the social system and at the same time initiating austerity reform measures, the government relied on a strategy of "damage control" (Andrić, interview [own translation]). This has apparently been easier to do than implement fiscal discipline on the revenue side.

"It was obvious that a certain number of employers have been able to lobby their way to be left alone [...] whereas the state itself has also not always been disciplined [...] on the one hand] state bodies and local governments owe the economy 4.6 billion dinars. Additionally public enterprises owe the economy 30 billion, and thirdly the economy owes public enterprises for electricity, water etc. 120 billion or more and this is one of the biggest problems in Serbia – internal illiquidity [...] while on the other hand] there is plenty of state intervention, so that can give the impression that the state is socially responsible [...] but it is in a way buying social peace: it is better that employees receive a minimum wage than nothing, better that the companies do not pay taxes and contributions – no one will say this officially, but they will say at least thus they 'keep people' on some basis" (Andrić, interview [own translation]).

In this respect, the Cvetković government was not very much different from the previous two, as it maintained established patterns of doing business, while it intensified external borrowing for the sake of budget stability.

The political importance of the Health Insurance Fund (HIF) made it vulnerable and susceptible to corruption. While on the one hand, the HIF displayed deficits mainly due to contribution evasion and had problems meeting its fiscal obligations, on the other it became engulfed in corruption affairs. In 2011, a scandal involving the HIF publicly broke out, which led to the imprisonment of the HIF's former director Vukajlović who had allegedly damaged the state budget by 1.6 million Euros in 2009 (B92 2011). The policy commitments made to the international financial institutions for the *healthcare sector* failed to translate into legislation.

During this government's mandate, there was a rise in the number of recipients of various kinds of *social assistance* as well as in the funds allocated for this purpose. Despite extended coverage and increased benefits' amounts, the system's outreach to the poor has remained insufficient (Vlada Republike Srbije 2011: 164). Various projects with international donors designed in the previous period were continued. Additionally, the government adopted a new Law on Social Care aimed at improving the targeting of the social benefits towards the poorest segments of society, which was a requirement by the international financial institutions.

To a great extent, the social policy agenda of the Cvetković government adhered to the fiscal austerity agenda conditioned by the loan arrangements with the IMF. While the government was quick in adopting measures which would curb future social expenditure, it did not hurry with their implementation, and during its mandate it strategically used public funds to postpone some of their effects. Additionally, there was an uneven approach towards the different segments of the welfare system. Effects were immediate in the pension system, and to some extent, also in the labor market and (un)employment protection policies.

5.5 Agency and Cleavage Structures: Paternalistic Approach

Serbian governments developed a paternalistic attitude towards social policies. All governments, including the one formed by the actors that mobilized the population against the previous authoritarian regime, adopted policies that they deemed best and failed to construct a broader

social consensus on the future social policy model. Except during the mandate of the Djindjić government, which shaped social policies as corrective measures to adverse effects of initiated liberalizing economic reform, all subsequent governments slowed down overall reforms, including social policy reform. They generally let themselves be guided by inertia and relied on inherited institutional and policy structures, except in situations where constraints were imposed by the international actors in line with their largely neoliberal agenda. Internal constraints, such as weak social base and slow democratic consolidation, also enabled the pursuit of paternalistic social policies.

Evidence has suggested that even with alternation of *parties* in power, there has been continuity in the social-policy making. Various authors have examined the cleavage structure of the Serbian party system along the lines of developed models regarding the social base of politics (cf. Komšić et al. 2003; Stojiljković 2008; Orlović 2008a). They have found that socio-economic cleavages have been less pronounced and that the major party divisions have revolved around other issues. During the nineties, the major splits were between parties in favor of the old regime (SPS, JUL, SRS) and parties in opposition to the regime (DS, ND, SPO). Although the oppositional parties flirted occasionally with the regime, this cleavage had become obsolete over time, especially after the political changes of 2000 with the subsequent rehabilitation of SPS (through a DS-led coalition government) and the emergence of the Serbian Progressive Party (*Srpska Napredna Stranka-SNS*) (after the split with SRS) (Orlović 2011: 25). An important cleavage which has continued to make a difference between the parties has been the *question of the nation and state*, along the lines of which parties were divided between national, civic and national-democratic parties (Stojiljković 2008: 266). The differences between the parties have not always been clear-cut, nevertheless, parties have generally diverged between those that view the collective national identity as the main source of state legitimacy (SPS, SRS, SNS), parties which have valued civil liberties above collective interests (DS, G17 Plus, LDP, LSV, GSS), and finally parties which have been difficult to classify, as they oscillated between the national and civic option (DSS, SPO, NS). This classification has been particularly evident in relation the question of the future European perspective of Serbia, dividing the parties between pro-European forces and nationalists (Orlović 2011: 26). The fact that the way to the European Union was inextricably linked to cooperation with The Hague and the question of the status of Kosovo reinforced this split. The parties belonging to the pro-European block have been admitted to the

different European party families: The DS has become affiliated with the Party of European Socialists, the DSS, G17 Plus and VMSZ - with the European People's Party, and the *Liberalno Demokratska Partija* (LDP), which was founded in 2005 after the split with DS, has become a member of the Alliance of Liberals and Democrats for Europe Party. Yet, in time, the divisions along this cleavage became less obvious. DSS left the European People's Party in 2012 criticizing the EU as biased towards Kosovo and advocating political neutrality of Serbia (DSS 2012), the SPS distanced itself from the Milošević legacy, the Radicals split, and the newly founded SNS toned down its nationalistic rhetoric.

In contrast, *socio-economic cleavages* have proven to be of lesser significance. Generally speaking, it could be expected that parties that promote collective identities would also advocate for greater involvement of the state also in matters of welfare, while parties that stand for the primacy of individual liberties would be advocates for liberalization and withdrawal of the welfare state. To some extent, such assumption applies to the Serbian political scene, at least when party rhetoric is taken into consideration, but the fact that most of the parties have crowded around the 'center' on the 'left-center-right' spectrum is closer to reality. Based on the analysis of five indicators of party positioning – self-identification of the party's electoral base, its ideological views, the party's positioning as found by its electoral base, official positioning by the party and its programmatic preferences – a study found that all the relevant political parties are concentrated between the 'center' and 'center-right', such as G17 Plus, SRS, DSS, DS, except for the SPS which is positioned between the 'center-left' and 'left' (Slavujević 2003: 157). This outcome is the result of the mean value of all indicators; however it is important to mention that some parties (DSS and SRS) have displayed less consistency per different indicators, thus making a clear-cut classification problematic. The author of the study argues that the reasons why the parties in Serbia move in a very tight space between market-based solutions and state involvement lie in both the socialist legacy and the specific transitional context. According to Slavujević, the socialist legacy has molded leftist ideas among the electorate, while the extremely difficult socio-economic conditions during the transition have kept demands for solidarity, statism and collectivism alive (Slavujević 2003: 158). Furthermore, under conditions of massive pauperization, parties were unable to build a clear social base of support, and in the competition of winning as many votes as possible, tended to minimize ideological differences and act as catch-all people's parties (Slavujević 2003: 159). Frequent electoral or ruling

coalitions of parties with contesting ideological affiliation have additionally complicated the problem of party differentiation (Ibid.). Consistent with the argumentation above, Slavujević also finds that it was other issues, such as the conditions of conflict and war which accompanied the break-up of Yugoslavia, the problem of Serbian statehood and the unresolved status of Kosovo that have been at the forefront of party contestation (Ibid.). All these factors have continued to persist and to blur party differentiation, although there have been some minor movements on the ‘left-center-right’ spectrum, of which the most evident being the DS’s official shift to the ‘center-left’ by its decision to join the European Socialist family.

Thus, the socio-economic cleavage structure has not transformed into a permanent axis of party competition despite the salience of the economic and social policy issues within the population. Electoral competition volatility has kept Serbian parties ‘on their toes’ and accounted for the moderately redistributive policies they have pursued when in power; however, it has also prevented them from having a stable base of support and from forging social pacts that would define their social policy agenda. Orlović rightly argues that the parties have not been policy oriented and that Serbian governments have been torn between promises to the voters and the agreements with the IMF (Orlović 2011: 36). The evidence set forth above also suggests that the incentive to change the established social policy schemes has come from the *international organizations*, mainly the World Bank and the International Monetary Fund. Although the governments have not unconditionally adhered to all their proposals, the social policy design has been the outcome of negotiations between these actors. The European Union has played a marginal role in this regard, related to the “very limited requirements for social policy alignment at the early stages of the EU integration process” (Arandarenko and Golicin 2007: 172). Many open political issues, primarily concerning Kosovo, have stalled Serbian EU approximation.

Some participation of the *civil society sector* has been enabled through the consultation process on the adoption of the Poverty Reduction Strategy of Serbia, which has certainly contributed to increased transparency in the policy making process.

“In 2001 we truly tried to make a professional consensus on these changes [...] we adopted a Poverty Reduction Strategy that was a very participatory process with a large

number of non-governmental organizations that took part and the next government officially committed to adhere to the document “(Matković, interview [my translation]).

It has, however, remained unclear as to how much these actors actually influenced the content of the policy, given that the Strategy Paper has been part of the World Bank’s and IMF’s aid conditionality. In any case, the governments showed higher readiness to cooperate with civil society organizations than with trade unions and workers’ associations, and more so in the area of social protection than in labour market-, pension- and healthcare policies, although these policy areas represent an important segment of people’s living standards.

During the nineties, the relatively egalitarian society was stratified, dividing the population into a small ruling elite and impoverished majority. The wars and economic sanctions laid the ground for dubious businesses and manipulations of the privatization process. Certain structures such as distinguished members of the communist party and directors of public enterprises used their close ties to the regime to reap profits from illegal trade and/or criminal privatization (Orlović 2008a: 277; Uvalic 2010: 103). The political and economic elites were mutually reinforcing, as they depended on each other for survival. They blocked any transformation of the status-quo which could undermine their power positions. It was only after 1997, and especially after 2000, that the economic elite turned its back on the Milošević regime, which became an obstacle to its interests (Orlović 2008a: 278; Ehrke 2010: 4). Despite the democratic shift in 2000, these ‘oligarchs’, or also called ‘tycoons’, forged new political alliances by changing tactics, and thus kept the state captive to their interests (cf. Pesić 2007; Orlović 2008a; Ehrke 2010). In 2003, Serbia’s Prime Minister Djindjić, fell victim to the effort to combat these criminal remnants of the past regime. The ‘oligarchs’, joined by some newcomers created under the new political authorities (cf. Stojiljković 2011: 88), continued to exert influence over the country’s political life. Mihailo Crnobrnja summarized it almost anecdotally:

“As for our tycoons, the explanation is quite simple - the party depends on them. Because they give, every wise tycoon here gives each party a little bit, no one finances only one party, except for Drakulić who funded DSS, he was even vice-president of the party until they chased him away. But all the others give a little to DS, a little to Nikolić¹⁶¹, a little to

Košunica – that is the basis for understanding why they are untouchable” (Crnobrnja, interview [my translation]).

A complex web of political and business relations managed to subject public resources to the elites’ narrow interests through ‘feudal’ division of power and the undermining of democratic institutions.

In conditions of weakened economic base and political capture, the majority of the population became disoriented and powerless. The wars facilitated manipulation of nationalist sentiments, whereas the political-, institutional-, and policy continuity gave a false sense of security. Thanks to external incentives and waning support for the Milošević regime, civil society groups and oppositional political forces mobilized the public against it. These social groups dispersed once this goal was achieved, while the political actors soon clashed and failed to use initial favorable conditions to agree on various strategic goals. Simultaneously, the industrial base which employed the majority of the workforce eroded, and large numbers of people were either out of work or became informally active. As a result, labor unions lost a substantial social base and their bargaining power was weakened. Throughout the transition, union density in Serbia fell to 33 percent while collective agreements covered 25 percent of all employees (Kohl 2009: 52). The trade union scene has been highly fragmented. In 2011 there were 20,052 trade union organizations and six trade union confederations (Grozđanic 2012). As both the trade union representatives told me during the interviews, this fragmentation has inhibited adoption of common positions (Stojilković, interview; Kosanović, interview). In 2005 the Socio-Economic Council as a tripartite body of social partners¹⁶² became operational. The governments, however, often ignored the proposals coming from the trade unions or circumvented the Council altogether by late submission of draft-law proposals for discussion or their direct introduction to parliament. Protests as a form of pressure have had limited impact mainly due to the unions’ weak social base and inability to mobilize wider support. Talking about the Confederation of Autonomous Trade Unions of Serbia, its representative Rajko Kosanović explained:

“Let’s say our membership, now we have less members than five or six years ago. It is noticeable that the strength of the unions is insufficient. Protests, strikes are a measure of last resort. When we organized protests we could not collect more than, say, ten, twenty

thousand people. That is not enough, compared to Belgrade, which has million and a half inhabitants, and our membership which is around two hundred thousand, although on paper we have over five hundred thousand, which is not a small number, but it is quite difficult to gather those people” (Kosanović, interview [my translation]).

Similarly Andrić argued:

“It is always a question of whether there is, not only sufficient institutional capacity, but also if there is sufficient will, if people are willing to give you support. In Serbia people have been protesting since the nineties, a lot of energy has been spent, certain expectations have been dashed. It is now very hard to draw people out on the streets so that they represent a real threat” (Andrić, interview [my translation]).

Stojiljković has summarized the causes for labor unions’ weakness in the absence of a tradition of critical attitude toward authority, fear of job loss, insufficient social solidarity, and overall disciplining effect of the crisis; disappointment from the effects of previous protests and general distrust in collective actors (including trade unions and their leaders); lack of cooperation among the unions themselves; and finally the neoliberally induced anti-union sentiment (Stojiljković 2010: 153-4).

Widespread dissatisfaction with living conditions and with Serbia’s development, declining trust in political institutions and various collective actors, and growing disappointment with the collective action effects resulted in popular retreat from political life, expressed by electoral fatigue and reduction in levels of political participation and civic action (cf. Stojiljković 2008; Mihailović 2010). At the same time, people continued to expect high level of state involvement in the provision of healthcare, pensions, employment and protection against poverty and unemployment¹⁶³. Serbian governments have not questioned the role of the state and have used the welfare system mainly for buying social peace, while at the same time they have taken advantage of the democratic deficit to promote policies which would not threaten the elites’ privileged positions. Talking about slowing down the overall pace of reforms, Zoran Stojiljković argued:

“There are two reasons. One reason is that a broad political coalition increases the transaction costs, given that each coalition partner has specific requirements. PUPS – the pensioners’ party is in the government. You cannot radicalize the problem, because you are thinking about the fact that this is the biggest social unit [...] Is it ok to politically push for reform - well not, so yielding is important. On the other hand, I was impressed by a report by the World Bank from 2002 which quotes something that they call ‘partially reformed equilibrium’. So, on the one hand, you make partial economic reform, postpone, buy a little social peace, stretch things, on the other hand you have partocracy instead of full democracy. So you lead flawed democratic change. What is essentially the goal? That those who are unhappy with the changes, cannot in a democratic manner bring things back to the way they were” (Stojiljković, interview [my translation]).

As already mentioned, the pensioners’ party (PUPS) has been in government since 2008 and it has had leverage over pension system reform. However, as evidence has shown, it did not manage to fully counter the requirements of the international financial institutions given the strict conditions of their loan arrangements. Another important group has been the refugees and the internally displaced persons from Bosnia and Herzegovina, Croatia and Kosovo, who have gained access to social rights in the form of pensions and cash benefits throughout various government mandates. Given their political importance, but also the sensitivity of the issue of the past wars and Kosovo, the governments sustained consistent support for these social groups. This fed well into the rest of the paternalistic approach, which consisted of upholding the public welfare system for the purpose of maintaining social peace in a post-conflict and transitional context and preventing disruption of established decision-making practices. Minimum reforms were introduced as a necessary response to the external lending constraints. The divide rooted in political attitudes of skepticism or acceptance of international influence contributed to general reform postponement.

6 Macedonia

Republic of Macedonia seceded from SFR Yugoslavia based on the independence referendum¹⁶⁴ held on 8th September 1991. Despite the relatively painless secession, when compared to some other parts of the former Yugoslavia, the problems which would mark the country's transition came forth from the outset. Internally, the country has had an ethnically very diverse population. The two most dominant ethnic groups¹⁶⁵ were (and continue to be) the Macedonians and Albanians, followed by smaller groups like the Turks, Roma, Serbs, Vlachs and others. Ethnicity became a source of continuous conflict. In 1991 the Albanian parties boycotted the independence referendum and the population census and voted against the new constitution objecting to the treatment of minority communities (Willemsen 2010: 973). After a decade of latent ethnic divisions, they culminated into an armed conflict which ended with constitutional redesigning of the state. The successful implementation of the new constitutional provisions became an important benchmark for sustainability of the multi-ethnic state.

Externally, the new independent state was not exactly met 'with open arms'. The country was admitted to the United Nations under the reference "the former Yugoslav Republic of Macedonia" in 1993, following a strong Greek campaign against the use of the name 'Macedonia'. The name dispute became a major stumbling block for the country's Euro-Atlantic integration, which has been one goal that has enjoyed broad political and civic consensus. The country's integration prospects have been stalled in light of the failure to start EU accession negotiations and the non-admittance to NATO.

Politically, the country has remained a defective democracy. The political system possessed nominally democratic characteristics, but in reality democratic institutions have been undermined by a variety of factors such as disrespect for the principle of division of power, dominance of the executive and decline in independence of other democratic institutions like the judiciary, the parliament, media etc., elite capture of resources and maintenance of clientelist relations, and a high degree of politicization of society that has limited the possibilities for citizens to influence decision-making processes. Even elections as a bare democratic minimum were often stained by irregularities.

This political situation was closely related to the developments in the economy. Especially at the beginning, the loss of the Yugoslav market and of the transfers from the federal development funds, the wars and the embargo on the northern neighbor and the embargo from the south contributed to a weakening of the already fragile Macedonian economy. The transition to market economy turned into a competition process over scarce resources. Thus, if resources were previously relatively evenly redistributed, during the transition they were turned into a privilege of the elites. Economic growth was sluggish, so much that after two decades Macedonia has remained a country with one of the worst socio-economic indicators in the region.

6.1 Economic Development

Out of the four country cases dealt with here, Macedonia was economically the weakest and in that respect already had a delicate starting point. Albeit not directly involved in the violent break-up, Macedonia's economy experienced the severe consequences of production breakdown, cessation of the federal transfers and loss of foreign exchange reserves to the National Bank in Belgrade, as well as loss of valuable trading partners. The UN imposed sanctions against the FRY in 1992 affected Macedonia as well. During the same period Greece unilaterally imposed a trade embargo against Macedonia and frequently closed its border, thus prohibiting flow of goods and preventing supply of petrol. In 1995 the Macedonian GDP fell to 70% of its 1989 GDP level (EBRD 2010a). In 1998, UN and EU sanctions were once again imposed against the FRY, related to the war in Kosovo, which also brought 355.000 refugees to Macedonia (UNHCR 2002). Furthermore, Macedonia experienced its own civil conflict in 2001, which interrupted the anyway sluggish recovery. In 2008 Macedonia finally surpassed its 1989 GDP level with 4.632 USD per capita.

Economic growth was pulled mainly by the final consumption dominated by increased private consumption and stimulated much less by general government final consumption, followed by import of goods and services, then exports, and finally by gross capital formation, which had the lowest share in the GDP structure (cf. Republic of Macedonia State Statistical Office 2012). While the big socially owned enterprises collapsed, the process of economic restructuring and privatization did not provide for a viable alternative. The mainly insider privatization process of the '90s, brought the newly privatized companies neither adequate knowledge nor access to

markets and finance (World Bank 2008b: 2). Often the interest in transforming social enterprises into operational units was missing, as asset stripping was the main goal during corrupt privatization practices. The nexus between the main choice of internal privatization model, the political instability both internal and external, as well as unfair practices discouraged foreign investors (Stambolieva 2011b: 139; World Bank 2008b: 2). The privatization of large state owned companies attracted inflows of foreign direct investment, while Greenfield investments were negligible.

Despite poor economic performance, the current account deficit was relatively low. It was highest in 2002 with -10,1% of GDP, after which it decreased to the level of -0,4% in 2006 (EBRD 2010a). Stronger export growth of raw materials and textiles in that period, a surge in remittances, and the privatization of the electricity distribution company practically eliminated the current account deficit (Donevska et al. 2007: 47; World Bank 2008b: 4). Another reason for the controlled current account deficit during the second decade was the low level of government spending. Government efforts in reducing spending and the fiscal deficit is what the World Bank called “commendable” (World Bank 2008b: 9), as spending fell from 40% of GDP (2001) to 34% of GDP by 2006. Social expenditure during the second decade has also been decreasing. Between 2001-2009 it was around 16% of GDP on average (Uzunov 2011: 115).

Generally, since the 1994 stabilization program which targeted the hyperinflation of 1.664 % (1992) (EBRD 2010a), Macedonia has introduced tight monetary and fiscal policies (World Bank 1995: 25). Price stability was achieved in 1996 and sustained ever since, thanks to the stable exchange rate, pegged to the German DM and then to the Euro. Fiscal policies have also been relatively stable throughout the decades. At the onset of the transition, government expenditure was around 50% of GDP, and was reduced to 33% by 2000. The second decade, as already demonstrated above, public spending was reduced from 40% (2001) to 34% (2006-2009). By keeping the government debt to sustainable levels, fiscal policies have supported the fixed exchange rate regime. Public debt was highest in 1999 with 57,4% of GDP and had by 2009 fallen to 23,7%; the external debt steadily grew from 14,8% (1991) to 58,8% of GDP (2009).

6.2 Changes to the Welfare System

6.2.1 Pension system

Albeit operating on a weaker economic base, Macedonia had a functional pension system. Upon independence this changed radically. The swift economic plunge and the soaring unemployment eroded the contribution base. The *contributor to pensioner ratio* fell from 3:1 to 2:1 in the course of a few years (1991-1995), and continued dropping until 2002 to the value of 1,3:1 (PIOM 2011: 9). Apart from the worsened ratio, pervasive evasion additionally pressured the system.

Concurrently, the adverse economic situation impelled people to look for an exit in retirement. By 1996 the number of pension beneficiaries had risen by 23,2% (PIOM 2011: 12). The biggest increase occurred between 1991 and 1993, after which beneficiaries' growth stabilized at a rate of 1-2% per year. The state halted massive entrance relatively early by intervening in the pension system.

Demographic trends were also unfavorable, but not so dramatic: the old-age dependency ratio (65+) in 2000 was 10% of the population and in 2010 – 11,7% (Republic of Macedonia State Statistical Office 2012).

6.2.1.1 Financing

According to the social insurance principle, the pension system is financed by *contributions*. Shortages are covered by *budgetary transfers*. In 1994 contributions accounted for 78% of the fund's revenues. By 2010 their share had dropped to 63% (PIOM 2011: 34-5). Exceptionally, high unemployment rates and contribution evasion have undermined the system's revenue base. Nevertheless, *revenues* have been growing modestly but continuously, from 17.494 to 41.470 million denars (1994-2010). Within those values, revenues from contributions have increased by 92,9% and from general tax by 382,8%. Other sources have been negligible.

The budgetary transfers absorb the fund's structural deficit. When the mandatory pillar was introduced in 2006, the budget additionally assumed the responsibility of financing the transitional costs. Since that paradigmatic reform, 35% of collected contributions have been redirected into private pension funds, while only 65% remained in the first pillar (MAPAS

2012). In 2008 the government introduced a new legislation¹⁶⁶ envisioning gradual decrease of the pension and disability *contribution rate* from 21,2% to 19% (2009), 16,5% (2010) and 15% subsequently. The change was introduced as part of a bigger reform proposal in the field of wage taxation. The reform involved harmonization and integration of the base for contribution payment (so-called *gross salary concept*) and integrated collection of social insurance contributions and personal income tax by the Public Revenue Office. The immediate revenue losses were expected to be insignificant, compared to the positive labor market achieved through labor cost reduction, incentives to formal employment and evasion decline, and better control (Government of the Republic of Macedonia 2009: 73-5). In practice, the revenue losses proved relevant, despite an improved contributor to pensioner ratio (1,7:1 in 2010) or intensified debt collecting activity (PIOM 2011). Therefore, the contribution rate was changed several times in the course of two years¹⁶⁷. Both the old and new legislation foresaw a contribution ceiling.

The system's *expenditures* have also been growing over the years, mainly as a result of the increased number of beneficiaries and the level of benefits. Together with transitional costs related to the switch to the second pillar, this stimulated the system's deficit (World Bank 2008b: 54). After 1995 expenditure stabilized at around 10% of GDP. Before this year its values were higher, in particular in 1993 - 15,9% (PIOM 2011: 20). Early interventions in the system stabilized the expenditure rate.

Table 27 Macedonia - total pension expenditure, % of GDP (1995-2010)

Year	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
	10,8	10,7	10,5	10,5	9,9	9,7	10,6	10,6	11	11,3	10,5	10,5	9,8	9,6	10,4	10

Source: PIOM 2011.

6.2.1.2 Coverage

Pension coverage in Macedonia applies to all *employees, self-employed persons and farmers*¹⁶⁸ and some other categories, such as elected officials, members of the army, the unemployed, sportsmen, artists, and other special insurance cases. These are the regular forms of insurance, which have remained practically intact.

Early retirement was discontinued, but there are specific cases of *accelerated insurance periods* that calculate a longer insurance period than the one effectively spent. It is reserved for certain hazardous professions like the military, some categories of the police, war invalids, members of the former Yugoslav army, and certain categories of the disabled. Other particularly hazardous jobs or jobs that cannot be performed after a certain age are determined by the Pension and Disability Fund. Finally, persons who have been persecuted or imprisoned for their ideas of self-determination of the Macedonian people and Macedonian statehood have access to privileged pension rights.

The most notable changes of the pension scheme occurred during the first decade of the transition. As early as 1994, when the new legislation entered into force, decision-makers prevented any possibility that the pension system was used as an exit strategy by the army of redundant workers. The buying-out of missing insurance periods as an option for fulfilling the eligibility criteria for retirement was repealed (Donevska et al.: 113). The *eligibility criteria* were also tightened and in 2001 were set at 64 years of age for men, while for women there was gradual increase of the retirement age until 2007 when it was fixed at 62 years of age. The minimum required insurance period is 15 years. Both conditions apply cumulatively to gaining access to a pension benefit.

Access to disability benefits has been restricted as well. In 1995 cash allowances to workers with decreased working ability were made a responsibility of the employer. Biggest cut in rights occurred in 2007 when cash benefits for the disabled with partial work capacity were removed altogether. In case of occupational disability, the insured person was given the right to professional rehabilitation, whereas an entitlement to a disability pension could be granted only in case of full incapacitation, or partial loss of capacity to work only in case the person cannot be trained for other professions through professional rehabilitation.

The parametric reforms contributed to fiscal stabilization of the Macedonian pension system, but at the same time affected coverage. According to one estimation, based on the ratio between people aged 65+ and pension beneficiaries of that age, 31,1% of the people above the age of 65 were in 2005 not covered by a pension benefit (Donevska et al: 122). Thanks to an increase of the number of old-age pension beneficiaries, coverage may have been improved by 2010, as the

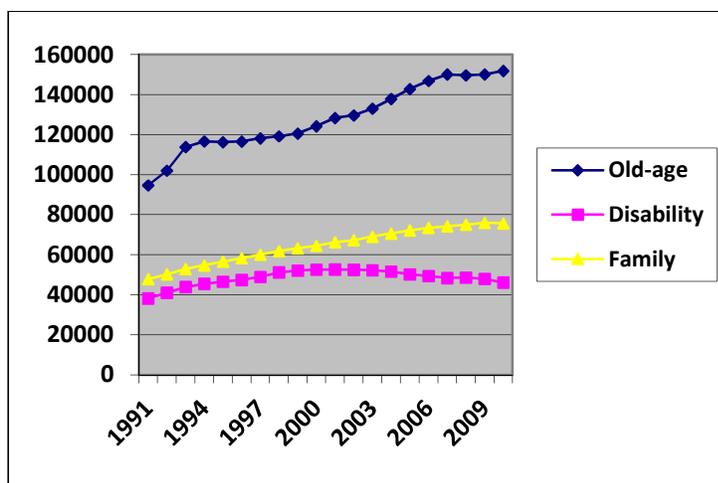
number of old-age, disability and survivor pension beneficiaries over the age of 65 was 180.474 and the number of 65+ aged people in the population was 239.756, leaving 25% outside of the system (PIOM 2011: 15; Republic of Macedonia State Statistical Office 2011: 12). These people may either be reliant on their families, may be working, receiving social assistance, or none of the above, and are generally at a higher poverty risk.

6.2.1.3 Benefits

The three main types of pension benefits awarded are *old-age pension*, *disability pension* and *family (survivor) pension*. Other benefits have been discontinued, like care allowances (1995) and the cash benefits for disabled who are partially incapacitated for work (2007). A benefit which has not been abolished is the *cash allowance for the case of physical impairment*.

The *number of pension beneficiaries* has increased over time. There have also been changes in the structure of pension benefits: the number of old-age pensioners has grown continuously, to a lesser extent also survivor pensioners, while the number of disability pensioners has been significantly reduced. In 1991 the share of old-age pension beneficiaries in the total number of pensioners was 52,4%, of disability pension beneficiaries – 21,1%, and of family pension beneficiaries – 26,5%. In 2010 the percentages were 55,5 (old-age), 16,8 (disability) and 27,7 (family). Additionally, there are specific types of pensions, such as military pensions and farmers' pensions which were subject of specific regulations, whose numbers are in constant decline, as the specific regulations no longer apply. In 2010, 2.161 military pensions and 1.817 farmers' pensions were awarded, which was 508 pensions less than the previous year (PIOM 2011: 11).

Figure 13 Macedonia - main type of pension beneficiaries (1991-2010)



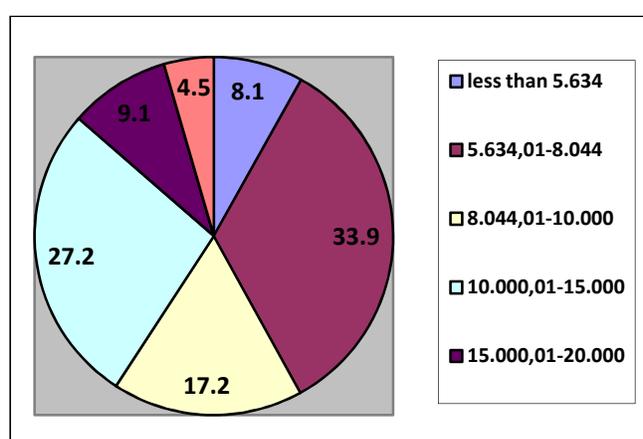
Source: PIOM 2011.

The total *replacement rate*, i.e. share of average pension benefit in average income, was highest in 1992 with 77,1%. Afterwards it fell to 47,9% (2010) (PIOM 2011: 24). Despite some minor fluctuations, there has been a general downward trend. Between 1992 and 2010, the shift in the replacement rate for old age pensions was 89,6-54,1%, for disability pensions 64,7-42,9% and family pensions 61,7-38,3%.

On the other hand, during the last decades benefits nominally picked up: the average pension benefit in 1992 was 1.032 denars and in 2010: 10.273 denars. However, higher increase was prevented by intervention in the *calculation and indexation of benefits*. Since 1993 the base for benefit calculation has been an insured person's entire contribution history, not including the period before 1 January 1970. The benefit is a certain percentage of the pension base determined depending on the years of pensionable service. In 2000 changes in the percentages were introduced related to the planned paradigmatic reform launching a second fully funded pillar. For the beneficiaries who would enter the new system, the percentage is more unfavorable, as it was expected that the reduced public benefit would be compensated by the benefits paid out from the private accounts (World Bank 2002a: 16). When the payments of benefits from the second pillar come into effect, the replacement rate from the first pillar would be 30%. Mixed wage-price indexation formula was introduced in 2000 as well, and since the 2007 legislative changes it has been done on a 50-50 basis¹⁶⁹.

Concerning the benefit level, following the 2000 reform, the *minimum level* of the benefit cannot be lower than 41% or 38% of the national average net wage for persons with more than 35-30 or 25-20 years of service (men-women) respectively, or up to 35% for persons with up to 25-20 years of service (men-women). The *maximum limit* of the benefit is 80% of 2,7 times the national average net wage for the year before the entitlement to pension. This limit applies only to the pensions or part of pensions received from the public fund (MISSCEO 2011). In 2010 the minimum pension was 5.634 denars and 8,1% of all beneficiaries received minimum pension. Altogether, around 60% of all beneficiaries received below than average pension benefit.

Figure 14 Macedonia – share of pension benefit recipients according to benefit amounts (2010)



Source: PIOM 2012 (Pension and Disability Insurance Fund of Macedonia).

Concerning the *disability and survivor pensions*, after the paradigmatic reform, contributors who join the second pillar shall receive the full amount of the benefit from the first pillar if the assets accumulated on their individual accounts are transferred to the first pillar. In case the accumulated assets are higher than the amount needed for the payment of the disability or survivor's benefit, the insured person can choose to purchase the pension annuity or request a programmed withdrawal (Apostolska et al. 2009: 5).

6.2.1.4 Structure

In 2006 the new system became operational, following a longer period of preparation¹⁷⁰, which was technically and financially supported by the World Bank. The new system is based on three pillars:

- *Mandatory public pay-as-you-go pillar* – the public pension scheme which rests upon the principles of reciprocity and solidarity is now only part of the new mixed pension system. All insured persons, as defined by the pension and disability insurance act, participate in the public scheme. 65 percent of the collected contributions are paid into this pillar;
- *Mandatory fully funded pillar* – this scheme is based on individualized capitalized savings. The scheme depends on the returns on investments to achieve stability and future benefits payments to pensioners. It became mandatory for all newly employed after 1 January 2003, while insured persons who were already working before this date could optionally choose to enter the new scheme. The second pillar is also not obligatory for farmers, since their contributions are calculated according to their cadastral income which are too low to be meaningfully separated into two pillars (Uzunov 2011: 118);
- *Voluntary savings pillar*¹⁷¹ – this pillar was launched in 2008 and operates on the same principles as the second pillar. It is open to all persons aged between 18 and 70, whether they participate in the other two pillars or not. Any foreign or domestic legal person may found a voluntary pension fund. Employers and civic organizations may establish occupational saving schemes for their employees or members. Assets from the voluntary scheme may be withdrawn earlier than the pensionable age (54-men and 52-women). Tax exemptions are also in place.

The public pillar is managed by the Pension and Disability Fund of the republic. The second pillar is managed by two private pension funds. Pursuant to legislative changes (2008)¹⁷², the pension market was liberalized. Still, these are the only operational funds for offering voluntary saving schemes. The same amendments introduced a maximum limit to the fee that the pension companies may charge. In 2011 there were 227.330 members of the mandatory pension funds and 69.301 in the voluntary schemes (MAPAS 2012). The payment of pensions from the second pillar has not yet commenced.

The private funds are supervised by the state Agency for Supervision of Fully Funded Pensions Insurance (MAPAS). The Central Bank acts as a custodian of the private pension funds assets, with the intention that commercial banks take over this role in the future (Apostolska et al. 2009: 7).

6.2.2 Healthcare system

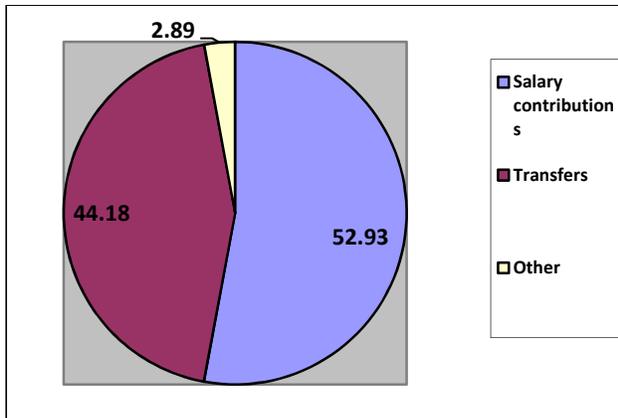
The Macedonian healthcare system is social-insurance based and aims to guarantee universal healthcare coverage. This model was already in place in the former Yugoslavia. Directly at the onset of the independence the highly decentralized way of financing and organizational structure was centralized. The inherited system was comprehensive, but also costly, and given the adverse economic and other circumstances during the transition, one of the first undertakings of the independent state was to subjugate financial imbalances. A significant upsurge in private sector's involvement, by means of private medical practice and patient's out-of-pocket payments was witnessed in time.

6.2.2.1 Financing

Public *revenues* for the health sector experienced a significant drop of around 40 percent. Despite the measures undertaken to curtail expenses through cuts in wages and capital expenditure, allowing shortages of pharmaceuticals and other consumables, and delaying payment on supplier credits, the healthcare sector *expenditures* surpassed revenues, thus creating a deficit of the Health Insurance Fund (HIF) early on (World Bank 2002a: 10). In 1999 modest revenue uplift and additional expenditure cuts created a surplus of 3%, but only for a short period. Accumulated arrears of the HIF and of the healthcare institutions (HCI) were halted again in 2006, due to hard budget ceilings imposed on the HCIs, monthly financial reporting and introduction of competitive bidding for pharmaceuticals (World Bank 2008b: 44). Hence, HCIs' arrears have remained an issue; after 2009, when by central budget intervention practically all debts were cleared, they started increasing again (FZOM 2009: 59).

One of the reasons for the indebtedness and lack of resources was the fact that they mainly relied on salary contributions. Very low levels of employment and additional tax evasion (or payment of contributions only on the basis of the minimum threshold instead of the effective salary) contributed to regressive effective tax rates (World Bank 2008b: 41). In time, the share of contributions in the HIF's revenues significantly decreased from 79% to 53% (1991-2011) (European Observatory on Health Care Systems 2000: 14; FZOM 2011: 60).

Figure 15 Macedonian Health Insurance Fund - structure of revenues (2011)



Source: FZOM 2012 (Health Insurance Fund of Macedonia).

Most of the transfers come from other social insurance institutions (up to 35%) such as the Pension and Disability Insurance Fund for the health insurance of the pensioners, the Employment Service Agency for the health insurance of the unemployed who receive an unemployment benefit, the Ministry of Labor and Social Affairs for welfare recipients and the Ministry of Health for the non-insured. Budget transfers comprise 9%. Other sources include also the co-payments.

Related to the *gross salary concept* reform the health insurance *contribution rate* was lowered from 9,2% to 6%, which was to be gradually reached through rates of 7,5% (2009) and 7% (2010)¹⁷³. By lowering the contribution rate it was expected that tax evasion would be discouraged and the revenue base would improve. However, soon thereafter the legislator intervened and modified the contribution rate several times to 7,3% (2010)¹⁷⁴, 7% (2011)¹⁷⁵ and finally fixed it at 7,3%¹⁷⁶. Additional contributions from the insured persons are collected in order to cover the risks of occupational disease or injury.

In 2009 the continuous growth of HIF's revenues was temporarily halted, but continued again thereafter. That year a new law announced a temporary standstill (until the end of 2012) in the payment of contribution arrears which had matured by 31. October 2008 (FZOM 2009: 86). The total value of collected funds in 2011 was highest compared to previous years - 21.104 million denars, as was the total value of funds spent - 20.967 million denars (FZOM 2011).

Despite rising nominal values of expenses, in relation to GDP, since 1994 public spending on healthcare has been lower than 5%; in the beginning of 2000s it was between 5-6% and by 2011 again fell to 4,6% (European Observatory on Health Care Systems 2000; FZOM 2003; FZOM 2011). Overall, Macedonia has been spending 8,3% of GDP on average (see Table 28).

Table 28 Macedonia - total health expenditure (public and private), % of GDP (1995-2010)

Year	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
	8,52	8,76	9,24	10,14	8,84	8,76	8,5	9,36	9,3	8,74	8,1	7,84	6,88	6,58	6,54	6,6

Source: World Health Organization Regional Office for Europe 2012 *Estimates produced by WHO, including both nationally reported data and estimates from other international organizations like IMF, World Bank, UN and OECD.

Patients bear a large portion of healthcare costs in the form of out-of-pocket and informal payments¹⁷⁷. Table 29 shows the ratio between *public and private expenditure* on health. But it is also true that during the nineties the ratio was not any better, if one considers the governments' decisions to rationalize healthcare costs early on. Voluntary health-insurance for the covering of costs which are not part of the basic healthcare package has been a legal possibility since 1991; however, in practice it has not been available.

Table 29 Macedonia - public/private healthcare expenditure (% in total healthcare expenditure) (2000-2010)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public*	56,6	57,9	57,9	58,5	59,5	61,8	65,1	64,3	68,2	66,5	63,8
Private	43,4	42,1	42,1	41,5	40,5	38,2	34,9	35,7	31,8	33,5	36,2

Source: World Bank 2012 *Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowing and grants (including donations from international agencies and nongovernmental organizations, and social (or compulsory health insurance funds).

The funds collected in the HIF are principally used for covering healthcare services (around 90 percent). Since 2008 their proportion has been falling to 86,8% (2011) (FZOM 2011: 65).

Regarding the structure of spending, some fluctuations can be observed. Spending on tertiary care has been by far the highest, in particular during the first decade of independence, while the

second decade has seen an upsurge of spending on primary healthcare, related to the introduction of the capitation model and more extensive contracting of private providers (Gjorgjev et al. 2006: 43). Public health institutions spend mostly on salaries, drugs and other medical consumables (Apostolska and Gulija 2011: 27). The share of spending on cash benefits has increased in the last decade from around 6 to 10 percent.

6.2.2.2 Coverage

Health insurance coverage encompassed almost the entire population by broadly defining the categories of insured persons and by including their family members in the health insurance scheme. Pursuant to legislative changes (2009)¹⁷⁸, health insurance became universal for all Macedonian citizens. The reform primarily targeted people who were informally employed but registered in front of the Employment Service Agency as unemployed in order to gain access to health insurance, and were thus considered to distort the unemployment picture in the country, as well as other uninsured persons who did not belong to any of the legally stipulated categories. At first, the state resumed financial responsibility for these categories, granting them access to the basic benefit package. However, soon thereafter, a new legislative intervention¹⁷⁹ introduced limiting factors to the possibility of the unemployed to be insured at the expense of the state. Depending on the level of their family's income, the HIF determines the contribution rate that the unemployed person has to pay himself/herself if he/she wishes to remain insured. As a result the number of insured persons from the categories of unemployed and uninsured dropped, but by the end of 2011 rose again to levels close to before the change. That same year the portion of farmers among the insured persons rose by 22%, and this is believed to be related to the abovementioned legislative change, because farmers pay smallest amount of the contribution rate (FZOM 2011: 12).

The number of insured persons has been more or less constant over the years. According to some estimations, around 8% of the population (150.000 persons) remained out of the statutory health insurance either because their "legal status (...) was not officially regulated or they were almost completely excluded from all social networks" (Uzunov 2011: 120). In 2011 the number of insured persons was lowest and included 89,2% of the population (FZOM 2011: 8). The ratio

among insured persons is as follows: 46% are employees, 27% pension beneficiaries, 23% unemployed and other, and 2% farmers.

Despite universally proclaimed coverage, barriers of access to healthcare exist for those who remain uninsured and/or who cannot afford to make out-of-pocket payments. The importance of private spending on healthcare on the one hand and the high incidence of unemployment and poverty among the population on the other leave many people excluded from the system. Particularly vulnerable are low income groups, children not attending school and street children, long-term care patients, the elderly, Roma, homeless, population from rural areas, the uninsured and redundant workers whose companies are not paying contributions (Apostolska et al. 2009: 21, 24). The health status of these categories has also been worse-off. Some public health programs have been in place, however resources allocated have been in a constant flux, suggesting that “the Government determines budget allocation on the basis of the availability of funds rather than in terms of established goals and priorities” (Apostolska et al. 2009: 22).

6.2.2.3 Benefits

Two main types of benefits are available to the persons covered by health insurance: *healthcare benefits* and *cash allowances*¹⁸⁰.

The basic benefits package defines the healthcare services to which the insured person is entitled to. It provides access to primary, secondary and tertiary healthcare, containing preventive measures, check-ups, treatment, access to pharmaceuticals, medical devices and supplies, rehabilitation and other services. Co-payments exist and are of relatively small amounts, which together with exemptions for certain categories and the disincentives of the public health institutions to collect them (World Bank 2008b: 42) has limited their effect.

The basic benefit package is considered comprehensive and costly (Gjorgjev et al. 2006: 32; Donevska et al. 2007: 150; World Bank 2008b: 47) and yet private out-of-pocket payment plays an important part. This may be a result of frequent revisions of the basic benefit package, which has led to “a bottomless list of undefined and unclear health services (...) covered in theory, but not in practice”, and of proliferating private providers, which “cream off expensive healthcare services” (Apostolska and Gulija 2011: 27-8). It will be discussed further in the sections below.

Cash allowances consist of salary compensation in case of temporary inability to work (due to sickness, injury or maternity) and compensation of travel expenses. In 2008¹⁸¹ special child allowance was introduced only in some municipalities; however, following a decision of the Constitutional Court it was abolished. Increased spending on these types of allowances, as was mentioned above, has been a result of employment growth in recent years, which increased the number of the entitled, and the average wage growth, which in turn affected the level of the benefits; but also lack of control by employers (particularly state and public institutions), lack of supervision over the issuance of allowances, and malpractice (FZOM 2011: 40). Legislative changes are expected to minimize the effects of the last three factors.

6.2.2.4 Structure

The healthcare services provision is organized on three levels: *primary*, *secondary* and *tertiary healthcare*. Health facilities range from health-care stations, healthcare centers and private practices at the primary level, general hospitals, polyclinics and rehabilitation centers at the secondary level to university clinics and institutes at the tertiary level.

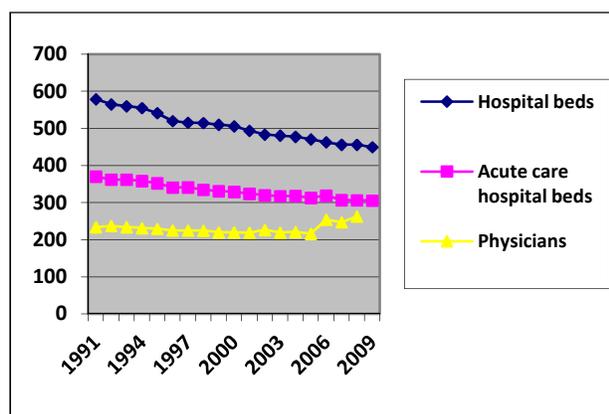
The pre-1991 healthcare system was highly decentralized. The founding and management of the health facilities was under autonomous jurisdiction of the local authorities. Such generously organized system bore the risk of unsustainability within the new circumstances; therefore, the central authorities assumed responsibility for its organization and the management of healthcare delivery. Related to the cost-containment policies in public spending, a *privatization upswing* took place. Upon 2004 and 2005 amendments to the Healthcare Act, a very intensive process of privatization started, especially in the primary healthcare sector, and by 2005 the private sector employed roughly one third of all physicians working in primary care (Gjorgjev et al. 2006: 26). In 2001 a capitation-based way of payment was introduced for the primary healthcare services delivered in private healthcare facilities which had contracts with the HIF (Gjorgjev et al. 2006: 74). In 2007 these provisions were extended to all primary care providers, including those which had by then worked in public health institutions (FZOM 2007: 47).

While primary healthcare was privatized, the secondary and tertiary level remained public, although private providers emerged also on these levels, some of whom have been contracted by the HIF only for a limited number of services. Nonetheless, the payment method on the

secondary and tertiary level was also modified. In 2005 a pilot project introduced the DRG model in selected hospitals (Gjorgjev et al. 2006: 75). During the transitional period in 2009 when the DRG system became operational (Apostolska and Tozija 2010: 21), hospitals were compensated based on a combination of expenditure and goals agreed with the HIF. The new model created savings for the Fund, but serious shortages for the providers, which as a consequence “operate with basic diagnostic procedures, basic interventions, and mostly experience a lack of medical supplies, consumables and some expensive drugs” (Apostolska and Gulija 2011: 25). The lack of capital investments in the previous period has also hampered a proper service delivery.

The public medical infrastructure has over time deteriorated. As depicted in Figure 16 hospital capacity as measured by the number of beds has waned. The rate of hospitalization has remained more or less the same during the same period (around 10 in-patient care discharges per 100), while the average length of stay has been reduced (14,4-9,7 days, 1991-2008). Outpatient contacts as part of primary healthcare and ambulatory care have at first decreased and then increased again (4,1 contacts per person per year in 1991, 3 in 2001 and 6 in 2006).

Figure 16 Macedonia - hospital beds and medical staff, per 100.000 inhabitants (1991-2009)



Source: World Health Organization Regional Office for Europe 2012.

Health services are underutilized, most likely as a result of the large size of out-of-pocket payments (World Bank 2008b: 45). Furthermore, “although bed capacity is not excessive, the inefficient use of hospital beds combines with their unequal and irrational distribution” (World Bank 2008b: 46). The reform efforts have focused mostly on primary care, which is what may

have contributed to the increased outpatient contacts, as patients could no longer directly address the other levels. None of the reforms have addressed rationalization and equal regional distribution of healthcare (Apostolska et al. 2009: 16). Health institutions are relatively equally wide-spread, as they are accessible to 90% of the population in less than 30 minutes (Donevska et al. 2007: 140); however, the quality of the given service is sometimes extremely low because of the poor conditions of the health facility, lack of equipment and drugs, insufficient personnel etc.

As shown in Figure 16, the number of physicians has remained relatively steady. Some studies have pointed to a surplus of health personnel, albeit there are discrepancies within specialties, or between physicians and other health professionals, as well as within regions (Donevska et al. 2007: 142). In recent years medical professionals have intensely migrated towards the private sector, driven by higher salaries and better working conditions, thus creating a loophole in the public sector (Apostolska and Gulija 2011: 32).

6.2.3 Labor market and unemployment protection

The Macedonian labor market has been unable to recover from the initial shocks. To begin with, Macedonia had one of the worst unemployment indicators in the former Yugoslavia. Most of the jobs were lost during the first years of independence, however high unemployment rates persisted even during years of economic recovery. Many of the older workers who were laid off during the restructuring became less employable, but also younger people experienced severe difficulties entering the labor market. Economic and investment activity was low, and at the same time the informal economy had become highly pervasive. Informal employment has been estimated as high as 60% of formal employment (European Commission 2008: 152).

Employment rates were very low, between 32,8% at its lowest (2004) and 38,6% at its highest (2001 and again 2010), whereas activity rates manifested better figures (between 52 and 57%).

Table 30 Unemployment rates in Macedonia, according to LFS* (1996-2010)

Year	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
	31,9	36	34,5	32,4	32,3	30,5	31,9	36,7	37,2	37,3	36	34,9	33,8	32,2	32

Source: Tosevska and Tevdovski 2006 (1996-2000) , ILO 2011 (2001-2008) , Republic of Macedonia State Statistical Office 2012 (2009-2010) *persons aged 15 years and over.

The war conflict of 2001-2002 lowered the economic activity (Tosevska and Tevdovski 2006). After 2005 the negative trend was reversed and there has been some modest new job creation in the private sector. Much of the new job creation has been of low quality, such as in agriculture (World Bank 2008a). The transition has generally been accompanied by labor movement towards agriculture, which has been utilized as a kind of buffer against periods of extremely high unemployment. Employment also increased in the services sector whereas the industry contracted. In 2009 the share of industrial employment was 31,3%, agricultural employment–18,2%, and 50,5% employment in services (UN 2012).

Activity of the working age population differs by gender, age, educational attainment, ethnic belonging and region. Long-term unemployment is an issue. Women in general, and especially women from a non-majority ethnic community, have been disadvantaged in the labor market. The implementation of the Ohrid Framework Agreement has contributed to improved employment of other ethnic communities in the public sector (Donevska et al. 2007: 49). Concerning the age cohorts, the young population and the elderly are worst-off. The low activity among the youth is related to their participation in education, but also lack of opportunities for labor market entry.

Besides missing economic opportunities, restrictive employment protection legislation has been found to dampen labor market entry probabilities. The rigidity referred to rules on temporary employment and collective dismissals (ILO and CoE 2007b: 25; European Commission 2008: 153). During the second decade, restrictions were loosened and legislative changes allowed different types of flexible work contracts. Fixed-term type of employment rose from 13,6% (1998) to 22,3% (2004), particularly among newly concluded contracts (ILO and CoE 2007b: 25). At the other extreme is the large-sized informal economy which tolerates exceptionally flexible labor relations.

6.2.3.1 Financing

The unemployment protection system is social insurance based, but it also largely depends on budget transfers. Unemployment expansion on the one hand raised the number of unemployment

benefit recipients, and on the other downgraded the contribution base, making the system more reliant on the general budget. During the second decade the *revenues* ratio improved in favor of the wage contributions¹⁸², which after 2010 accounted for more than half of the funds of the Employment Service Agency (ESA). The improvement was less a result of an improved collection of contributions and more a consequence of continuous benefit cuts and transfer of competences regarding the health-insurance of the unemployed from the Agency to the Health Insurance Fund.

Thus, *expenditure* on unemployment protection has been falling. Information regarding the spending on active versus passive labor market policies is inconclusive, because it is not always clear how much the ESA allocates on active labor market measures and how much comes from external sources. Data shows that the spending on ALMPs in 2007, 2008, 2009 and 2010 was 0,07%, 0,16%, 0,25% and 0,12% respectively (MTSP 2011a: 25). This suggests that with the trimming down of unemployment benefits, priorities shifted towards activation.

Table 31 Macedonia - unemployment protection expenditure as % of GDP (2005-2010)

Year	2005	2006	2007	2008	2009	2010
Expenditure	2,34	1,91	1,53	1,38	1,28	0,79

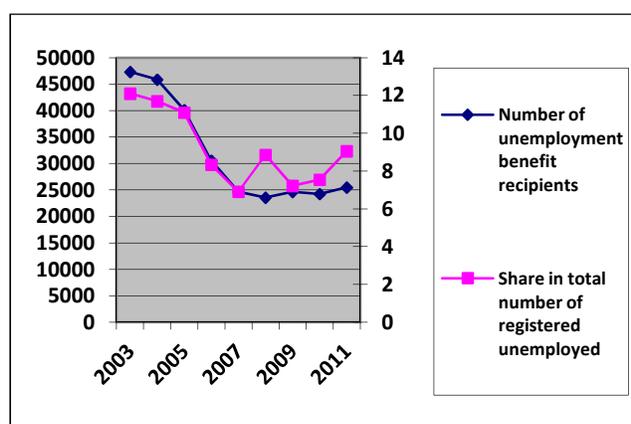
Source: own calculation based on expenditures given in annual reports of the ESA and data on GDP levels retrieved from the Central Bank of Republic of Macedonia (AVRM 2012; NBRM 2012).

6.2.3.2 *Benefits and Coverage*

Next to the *unemployment cash benefit*¹⁸³, the unemployed have the rights to *healthcare, pension and disability insurance, special employability rights for disabled persons*. The right to pension and disability insurance has been limited to the recipients of unemployment cash benefit who still have to 5 years¹⁸⁴ (18 months)¹⁸⁵ before meeting the eligibility criteria for old-age pension and who have less than 15 years of service until they complete this minimum pensionable requirement. As already elaborated above, under healthcare, the health insurance of the unemployed was moved from the competences of the ESA to the HIF and finally to the unemployed persons themselves who have to pay for their own insurance depending on their family's income.

As a result of the economic collapse and the numerous lay-offs, the number of the unemployment benefit recipients rose from 5.400 in 1990 to more than 50.000 in 1997 (Vaknin 2001). Following 1997, the right to use cash benefit became subject to constant reduction (Gerovska-Mitev 2008: 92; Saveski et al. 2010). Although the number of unemployed remained permanently high, the number of cash benefit recipients has been in permanent decline. Figure 17 illustrates these figures and the share of the cash recipients in the total number of unemployed (left axis).

Figure 17 Macedonia - unemployment benefit recipients and their share in the total number of registered unemployed, measured in December each year (2003-2011)



Source: AVRМ 2012 (Employment Service Agency of Macedonia).

To a certain extent, the drop was related to the fact that most of the company restructuring was completed and during the second decade there were less closures of companies (Uzunov 2011: 125; Donevska et al. 2007: 71). Moreover, it was the *eligibility criteria* which proved limiting. The cash benefit can be awarded in case of unemployment to a person who has worked full-time or part-time but calculated in full-time, a seasonal worker who has worked more than 40 hours per week and a migrant worker. The unemployed person has to have an employment track-record of at least 9 months continuously or 12 months with interruptions within the preceding 18 months. The unemployment protection system has thus remained unfriendly towards new labor market entrants and persons working under atypical employment contracts. Most of the benefit recipients are redundant workers and workers who have lost their jobs due to bankruptcies.

The *duration* of the cash benefit has been slashed continuously. Between 1987 and 2006, its range was cut from 3-36 months to 1-12 months (Saveski et al. 2010: 69, 82). Until 2000¹⁸⁶

persons who have had an employment track record of more than 25 years could receive unemployment benefit until the person's next employment or their retirement. In 2000 this opportunity was reduced only to persons above the age of 55, with at least 15 years of service. After 2005, only a person who fulfills the minimum requirement for retirement (15 years of service) and who lacks 5 years¹⁸⁷ to reaching the retirement age could receive the unemployment benefit until retirement or until occurrence of some other bases for termination of the right to compensation.

The *benefit amount* was also affected by the cuts. It depends on previous track record and its replacement rate is 50% or 40% of the average net wage amount. In 2004¹⁸⁸ the calculation base was widened from the average net wage amount received during the previous 12 months of insurance to previous 24 months of insurance. As of that year other types of income are not taken into consideration, thus making the benefit available only to wage earners. In 2010¹⁸⁹ price indexation replaced the wage indexation of the cash benefit.

Before 1997 there was no *maximum* amount of the benefit, while the *minimum* was fixed at 50 Euros (Gerovska-Mitev 2008: 92). Afterwards, the benefit was capped at the national average net wage (since 2005 it is up to 80%), and there is no guaranteed minimum level.

6.2.3.3 *Employment measures*

Aside from benefits' administration, the Employment Service Agency of Macedonia provides *counseling and employment mediation* as part of its traditional task description. Employment mediation may be provided also by private agencies. More recently, the ESA also implements *activation policies*. The passive and active labor market policies have not been mutually integrated. In fact, there is a negative correlation between an unemployed person status and performance of any type of work, except for work assigned by the ESA (public work).

Most of the active labor market programs were carried out with the assistance of UNDP, USAID and European agencies, which provided financial and technical assistance. Between 1996 and 2002 about 10 million US\$ were spent on these programs, which represented only 0,05% of the GDP (Kostadinov 2009: 16). In recent years spending on ALMPs, as shown above, improved,

but nevertheless expenditure under 0,2% is considered extremely low to be able to be effective (Uzunov 2011: 127).

The main measures, incorporated in the National Employment Strategies of 2010 and 2015 and the various action and operational plans, involve *training, self-employment support, subsidies for employment of certain target groups and public works*. A separate fund has also been in place for employment support for disabled persons. The annual reports of the ESA illustrate the number of unemployed persons encompassed by the different policy measures. A broader examination of their effects and sustainability is missing. Some analysts suggest that in some cases the unemployed persons only remain employed until the end of the project (Stambolieva et al. 2008: 20). Some evidence exists about the participants in (re)training programs who have found employment upon its completion (Ibid.). In any case, the initiatives have had only symbolic impact on the general labor market indicators (Uzunov 2011: 126).

6.2.4 Social protection

In line with Macedonia's desire for closer alignment with EU practices and recommendations, in 1996 it adopted a relative *poverty* line, first established at 60 percent of median equivalent expenditure by household and as of 1997 determined at 70 percent. The change has been introduced as a result of World Bank expert estimations as well as the need to correlate the poverty threshold with the increased demand for social assistance (Donevska et al. 2007: 91). In any case, there has been a continuous upsurge of poverty, although it should be noted that the striking increase between 2001 and 2002 has most likely been due to changes in the survey instrument and sampling methods (World Bank 2005: 11).

Table 32 Macedonia - relative poverty rates (1997-2010)

Year	97	98	99	00	01	02	03	04	05	06	07	08	09	10
Rate	19	20,7	21	22,3	24,6	30,2	30,2	29,6	30	29,8	29,4	28,7	31,1	30,9

Source: MTSP 2011b, Republic of Macedonia State Statistical Office 2012.

Economic growth in the first decade of the 2000s has not contributed to poverty decline and even modest “job creation had not been a channel for poverty alleviation, as new job creation was

primarily in unpaid or low wage employment” (World Bank 2009: xi). Thus, although poverty rates were generally higher among the unemployed and inactive, the category of so-called ‘working poor’ also expanded. This suggests that employment alone did not represent a poverty exit strategy.

During the ‘90s wages increased nominally, but along with high inflation actually declined, whereas after 2000 real net-wage growth was positive and even exceeded productivity growth (World Bank 1999a; Mojsoska-Blazevski 2011). Annual wage growth at national level between 2002 and 2009 was 5,4%, and the greatest real wage growth was registered in the public administration with 56,2% overall growth, which was a result of political considerations (Mojsoska-Blazevski 2011: 84, 91). On the other hand, the highest wage disparities can be recorded in the private sector. Nevertheless, the wage structure has been quite compressed since workers on the top decile earn only 3,4 times more than workers at the bottom decile (Mojsoska-Blazevski 2011: 94). This could be related to the fact that wage underreporting has become a widespread phenomenon in Macedonia, which was one of the main drivers behind the 2009 government’s decision to intervene in the tax wedge on employment.

The Gini coefficient of around 0,37 has placed the country in a group of very high income *inequality* (World Bank 2008b: 15). One study has found that the system is highly unequal, “with the richest 20% of the population receiving 42% of the total disposable income, while the poorest 20% receiving just 5%” (Bartlett et al. 2010: 35). This suggests that social transfers have failed in to yield redistributive effects. The transition raised the number of recipients of unemployment benefit and of welfare cash transfers; however, while the problem of unemployment and poverty remained widespread, social targeting after 2002 deteriorated. Thus, “by 2006 only one in three extremely poor households and one in five moderately poor households received social assistance benefits [...] in contrast, though the pension system is not an anti-poverty program, its coverage of the poor was much higher” (World Bank 2009: xvii).

6.2.4.1 Financing

Social protection schemes are tax financed. Related to the tendency to reduce overall government spending, and in particular social spending, along with contributory benefits, also non-contributory welfare was affected. An estimated 1% of GDP is allocated to social welfare

programs (World Bank 2009: 37). The main source of funding is the central budget. The process of decentralization, in particular the fiscal decentralization, has been advancing very slowly. Depending on the availability of own resources or government awarded contracts, additional services can be provided by municipalities, such as shelters, public kitchens, or day care centers. According to the Strategy on Deinstitutionalization 2008-2018 and the 2009 Social Protection Act, municipalities are expected to assume a bigger role in the provision of social services (Bartlett et al. 2010). As of 2004 also non-governmental organizations were given the possibility to engage in service delivery with state financial support, the likelihood of which was extremely limited due to its underfinancing (Bornarova 2011).

6.2.4.2 Benefits and Coverage

Benefits are provided in the form of *social assistance, institutional and non-institutional care, and social work services*¹⁹⁰. Social assistance consists of various cash benefits, such as permanent assistance for persons in need and unfit for work, social assistance for persons in need and fit to work, care allowance, one-off assistance, supplements for various categories. Institutional and non-institutional care include placement in institutions, foster care or day care and some other social services.

Social assistance is the main cash benefit aiming to alleviate the tough living conditions of the most disadvantaged. In due course means-testing became stricter and this explains the declining *number of social assistance recipients* (see Table 33). The new legislation contributed in this direction, which may be related to the World Bank’s findings that targeting of social assistance during the second decade worsened, as “less than half of total social assistance transfers benefit the poor” and its recommendations to reform the system regarding the “eligibility criteria, improve targeting and reduce leakage to the non-poor” (World Bank 2009: 37, xxii).

Table 33 Macedonia - average number of welfare benefit recipients (1998-2011)

Year	Social assistance	Permanent assistance	One-off assistance	Care allowance
1998	49.955	5.879	11.112	11.606

1999	63.812	4.890	23.014	12.768
2000	72.722	4.913	29.076	14.923
2001	74.720	4.966	28.034	17.165
2002	78.654	5.129	29.635	19.522
2003	61.813	5.176	1.178	19.158
2004	64.804	5.016	2.207	19.788
2005	67.113	4.871	2.387	21.544
2006	64.970	5.016	1.232	21.509
2007	64.143	5.033	1.616	19.483
2008	53.038	5.277	1.692	22.012
2009	50.656	5.617	1.520	20.925
2010	46.903	5.734	57	21.760
2011	37.048	5.767	1.011	23.569

Source: Verme and Kunovska 2008: 60 (for the data 1998-2007); MTSP 2013: 134-36 (for the data 2008-2011; note: data shows the recipients at the end of each year).

In reality, an almost arbitrary erasure of welfare beneficiaries ensued. Not only were the eligibility criteria tightened, but also administrative barriers to access increased, although the situation before could hardly be deemed inclusive. Administrative barriers in the form of complicated application procedures requiring procurement of many documents, arbitrary decision making processes, random controls on households and late benefit payments were some of the system's inherent problems (World Bank 1999a: 63).

The *social assistance amount* was also lowered in order to discourage potential applicants. Thus, while according to the 1997 legislation the benefit was determined in certain proportion to the national average salary, pursuant to the 2009 legislative change, the benefit was set in absolute terms at 2.140 denars per person and raised by coefficient 0,37 for each next member of the household, but maximum for a five-member household. The highest benefit that could be received is 5.508 denars for the first year, which is then reduced for every next year and awarded for a maximum of three years.

In similar vein, the right to *child allowance*¹⁹¹ was restricted, which reduced the number of beneficiaries and the benefit level. However, overall expenditure on all child benefits during the last few years increased, mainly as a result of expansion of the number of beneficiaries within the other categories and the introduction of the parental allowance (cf. Verme and Kunovska 2008: 59; MTSP 2013: 100).

Table 34 Macedonia - average number of child benefit recipients (1998-2011)

Year	Child allowance (number of children)	Special allowance (number of children)	Birth allowance	Parental allowance (number of families)
1998	71.928	2.548	11.000	/
1999	68.605	2.738	11.464	/
2000	65.892	2.960	10.475	/
2001	60.057	3.148	9.724	/
2002	54.548	3.224	9.731	/
2003	52.633	3.602	8.294	/
2004	41.979	4.224	8.706	/
2005	39.277	4.488	8.221	/

2006	38.483	4.819	6.408	/
2007	32.320	4.842	6.049	/
2008	35.774	5.597	6.102	/
2009	34.423	5.903	12.910	8.520
2010	26.588	6.350	8.986	6.151
2011	22.626	6.504	8.778	9.148

Source: Verme and Kunovska 2008: 60 (for the data 1998-2007); MTSP 2013: 100 (for the data 2008-2011).

6.2.4.3 Structure

Social welfare provision is mainly managed by the 30 inter-municipal *Centers for Social Work* (MISSCEO 2013). The Centers still represent local units of the central authorities, which is planned to change under the decentralization process. Other social protection institutions, which are closely linked to the CSWs, are: 3 institutions for children lacking parental care, 3 institutions for care of disabled persons, 1 institution for professional training and employment of disabled persons, 1 institution for care and education of children and youth, 1 institution for children with educational and behavioral problems, and 15 homes for the elderly (out of which 4 are public) (Republic of Macedonia State Statistical Office 2012). The private element has mostly been present in the establishment of homes for the elderly and kindergartens. Pursuant to the 2004 legal amendments, the network of non-institutional social services, in the form of day-care centers and shelters for socially vulnerable categories, expanded (Bornarova 2011).

6.3 Political Context

6.3.1 The 1990s

Macedonia's peaceful secession from Yugoslavia disguised its turbulent transition in the 1990s which was characterized by highly risky external setting and internal political instability. The first multiparty elections held in 1990 showed deep divisions within the population. The major

divisions were based on ethnicity (Macedonians as a majority and Albanians as the biggest minority community), as well as political - between the former communists and the new nationalists. The newly founded Internal Macedonian Revolutionary Organization-Democratic Party for Macedonian National Unity (*Vnatrešna Makedonska Revolucionerna Organizacija – Demokratska Partija za Makedonsko Nacionalno Edinstvo, VMRO-DPMNE*), a party that adopted the name of a revolutionary national liberation movement of the late 19th and early 20th century, sought to appeal to the awakened national feeling, which in a highly volatile regional setting could gain prominence. Although the party won the majority of seats in Parliament (see Annex II), it was unable to form a government and thus the first decade of the transition saw continuity of the former communist elite. The first technical government was soon replaced by a political one, led by the Social-democratic Union of Macedonia (*Socijaldemokratski Sojuz na Makedonija, SDSM*).

Despite the precarious political scene, SDSM managed to monopolize power until 1998. At the 1994 parliamentary elections, the two main oppositional parties (VMRO-DPMNE and DP¹⁹²) contested the first round results, boycotted the rest of the election and eventually stayed out of parliament for the whole term (1994-1998). A ruling coalition split over issues of power occurred in 1996 (cf. Willemsen 2010: 983). The “Liberals [...] called the government corrupt and accused the Social Democrats of trying to concentrate all political power in their hands. Liberal Party leaders were in turn accused of profiting from the sale of the country’s most lucrative enterprises” (Krause 1996: 138). Also, in 1995, Macedonia’s President Kiro Gligorov was victim of an assassination attempt, which subsequently weakened his mediatory and reconciliatory role on the Macedonian political scene. Neither the coalition’s break-up nor oppositional mobilization¹⁹³ tampered with SDSM’s rule. Nevertheless, the government’s arrogant behavior and the engulfing corruption scandals eventually delegitimized it (Boduszynski 2010: 149).

External conditions, especially the politics of Macedonia’s neighbors, burdened the country’s way into independent statehood. In particular, Greece’s objection to the country’s use of the name ‘Macedonia’ has had far-reaching repercussions on Macedonia’s fragile transition. Although the EU’s Arbitration Commission of the Peace Conference on the Former Yugoslavia (known as Badinter Commission) recommended Macedonia’s recognition in 1992, this decision

was held up by EU member states due to Greece's objection (ICG 2009: 3; Gligorov 2002). Macedonia joined the United Nations a year later (1993) following Security Council Resolution 817 recommending that the country be admitted to membership under the provisional reference "the former Yugoslav Republic of Macedonia". Furthermore, Macedonia changed part of its constitution and its state flag as a concession towards Greece. In 1995 the parties to the dispute (Macedonia and Greece) signed an Interim Accord providing the basis for the regulation of their mutual relations and calling for continued negotiations with a view to reaching an agreement on the differences over the name. The whole issue concerning the name not only hurt the country politically, but the related Greek embargo¹⁹⁴, coupled with the UN sanctions towards its northern neighbor¹⁹⁵, brought Macedonia to the brink of economic collapse.

Apart from these external risks, internal divisions on ethnic basis have proven to be a continuous destabilizing factor for the country. Starting from the independence referendum (1991), which was boycotted by the Albanian parties, the Macedonian-Albanian friction culminated in a conflict between the Albanian rebels (the National Liberation Army-NLA) and the Macedonian security forces in 2001. The fact that during the nineties Albanian parties were included in all governing coalitions did not contribute to improvement of the inter-ethnic record. There was a widespread perception among Albanians of their discrimination, and on the side of the Macedonians, a feeling about the Albanians' disloyalty to the Macedonian (cf. ICG 2000). Boduszynski writes that Albanian parties were given "insignificant portfolios and relegated to second-class status" (Boduszynski 2010: 152). Thus, the fact that they held the Ministry of Labor and Social Policy, speaks for the importance attributed to labor- and social policy issues on the political agenda.

The 1998 elections saw a shift in power and brought together the two nationalistic and radical parties from the Macedonian and Albanian block, balanced out by the liberal Democratic Alternative (*Demokratska Alternativa, DA*) into one government (ICG 1999), which took a rather practical stance towards power. VMRO-DPMNE and the Democratic Party of Albanians (*Partia Demokratike Shqiptare, PDSH*), which was founded after the 1994 split from the Party for Democratic Prosperity (*Partia Për Prosperitet Demokratik, PPD*), divided spheres of influence along ethnic lines and practically institutionalized corruption and criminal structures (Boduszynski 2010: 153; Willemsen 2010: 971). For instance, if VMRO-DPMNE had accused

the SDSM of rigging the 1994 elections, in 1999 it was suspected of committing electoral fraud with the help of PDSH at the presidential elections (Willemsen 2010: 977-8). Overall, there were hardly any elections throughout Macedonia's transition which have not been stained by irregularities, thus calling even minimal democracy levels into question.

The neighboring Kosovo crisis (1999) indirectly spilled over to Macedonia. After the outburst of the conflict between the NLA and the Macedonian security forces, a Grand Coalition government was formed under pressure of the international community, mainly the EU and the USA (Freedom House 2003b), which facilitated a peace agreement, also known as the Ohrid Framework Agreement (OFA). The OFA was signed in 2001 by the leaders of the major political parties (VMRO-DPMNE, SDSM, PDSH and PPD) and was eventually incorporated in the Macedonian constitution, introducing a new power-sharing model in the Macedonian political system.

6.3.2 The 2000s

At the 2002 parliamentary elections, people voted the corrupt VMRO-DPMNE/PDSH government out of office. In general, economic issues have shaped electoral outcomes in Macedonia. Whilst in 1998 VMRO-DPMNE successfully replaced the SDSM-led government, "largely with promises to create prosperity and to decapitate the infamous SDSM 'octopus' of corruption" (Freedom House 2003b), in 2002 the opposite occurred. SDSM's electoral promise of 'at least one employed person in every family' particularly appealed to the electorate, which was plagued by unemployment, poverty and corruption as the three most pressing concerns for most Macedonians (Freedom House 2003b). Additionally, VMRO-DPMNE's inept handling of the post-conflict situation¹⁹⁶ reinforced the dissatisfaction which led to change.

Between 2002 and 2006 the country was governed by a SDSM-LDP-BDI coalition. The Democratic Union for Integration (*Bashkimi Demokratik Për Integrim-BDI*) was a party which was founded in the aftermath of the conflict and enabled a passage of the former NLA into formal politics. Although the political situation during that period was far from ideal, as already enfeebled democratic institutions had to additionally struggle with post-conflict reconciliation, the country managed to gain EU candidate status in 2005. Thanks to continuous international support, sensitive reforms related to the OFA were implemented and the country could move

forward. Most prominent success in that sense was the passing of local government reform, which envisaged transferring more power to the local level as well as redrawing of municipal boundaries, thus making certain municipalities predominantly Albanian. A referendum, which was organized under the initiative of the World Macedonian Congress, a Macedonian diaspora organization, in order to keep the old legislation, failed to garner enough support. There is a consensus that the US decision to recognize Macedonia under its constitutional name “Republic of Macedonia” was a well-timed event which helped diffuse voters (Freedom House 2005b; ICG 2006a; Boduszynski 2010). This strategic move, combined with a promising outlook about NATO and EU membership, gave people a feeling of security and stability, and contributed to their quiescing.

Despite the political successes and the strong international backing the Macedonian political scene was unstable. After Macedonia’s President Boris Trajkovski had died in a plane crash, that has remained unclarified to date, SDSM’s President and Prime Minister, Branko Crvenkovski, ran for president at the extraordinary presidential elections and won. The government of Hari Kostov which followed did not hold long, as despite the previously mentioned success with the decentralization project, Kostov resigned after less than 6 months in office, alluding to “an inability to work with the ethnic Albanian political parties in the ruling coalition” (Freedom House 2005b). During the mandate of Vlado Bučkovski, Macedonia became a candidate for accession to the EU, which especially welcomed “the substantial progress made in completing the legislative framework related to the Ohrid Framework Agreement” (Council of the European Union 2006: 7). The recommendation for opening negotiations was, however, postponed pending progress regarding the electoral process, police and judiciary reform, and the fight against corruption (European Commission 2005). Thus, the political leadership was able to capitalize on the political stabilization process, however, serious commitment to democratic transformation was lacking and the country continued to function under the established practices of political patronage and corruption¹⁹⁷ (cf. ICG 2006a). Furthermore, despite the formally recognized successes, there was little effect on people’s lives, as unemployment and poverty remained endemic, which reflected in the electoral mood at the 2006 parliamentary elections.

After 2006 there were two more parliamentary elections held (2008 and 2011) and all of them confirmed VMRO-DPMNE’s rule. In particular in 2008, VMRO-DPMNE with its smaller

coalition partners won half of the votes (48,8%) and secured an absolute majority in the Parliament (63 out of total 120 seats) (Annex II). Earlier that year, at the NATO Summit in Bucharest, Macedonia did not join the alliance together with Croatia and Albania, due to a Greek veto, despite U.S. President's Bush strong support for Macedonia's bid. Prime Minister Nikola Gruevski managed to turn this event to his party's advantage and was able to capitalize on the feelings of disappointment and injustice. Subsequently, VMRO-DPMNE's presidential candidate, Gjorge Ivanov became Macedonia's next President at the 2009 presidential election, in addition to the party's successes at the local elections that same year. In 2011 another early parliamentary elections were held, in response to the opposition's parliamentary boycott and their calling for such elections (Freedom House 2012b), which turned out to be a complete miscalculation on their part. And although the majority of the population was dissatisfied with the government's performance and disapproved of the country's leadership¹⁹⁸, it was not ready to put its trust in the oppositional parties. Albeit in power since 2006, VMRO-DPMNE has successfully managed to channel the population's anger and dissatisfaction with its poor socio-economic conditions towards Branko Crvenkovski, a three time Prime Minister and President of the Republic, who in 2009 again became leader of the SDSM, and who has continuously been used by VMRO-DPMNE as a scapegoat for the painful Macedonian transition. Furthermore, by a combined use of divisive nationalist rhetoric and complete capture of public resources, the ruling elite managed to keep society under control. The Albanian partner (BDI since 2008) was effectively included in this ruling project, partly through the government's occasional concessions towards the Albanian community in Macedonia, and partly through the allure of having political power and a say in the distribution of resources.

Since 2009 the European Commission has subsequently been recommending start of negotiations for EU membership, however the Council of the EU, whose decisions on the matter are reached by consensus of all member states, including Greece, has been reluctant to follow the Commission's opinion¹⁹⁹. Following a claim raised by Macedonia in front of the International Court of Justice, related to Greece's objection to Macedonia's admission to NATO in 2008, in 2011, the Court found that Greece has breached its obligation of the 1995 Interim Accord, one of whose provisions stipulated that joining international, multilateral and regional organizations and institutions would not be hindered as long as the reference "the former Yugoslav Republic of Macedonia" is used. However, apart from a brief moral boost on the Macedonian side, the

decision did not alter the political alliances' decisions. Alternatively, the EU offered Macedonia a High Level Accession Dialogue (HLAD), which commenced in 2012, with the purpose "to inject new dynamism in the EU accession reform process, thereby strengthening confidence and boosting the European perspective of the country" (European Commission 2012a). The main challenges which were to be addressed under the HLAD referred to the freedom of expression in the media, rule of law, public administration reform, electoral reform and strengthening the market economy (European Commission 2012a).

6.4 The Politics of Welfare

6.4.1 Embarking on transition (1992-1998)

Following Yugoslavia's break-up, Macedonia found itself in a downward economic spiral. Plunging economic output, soaring inflation, mounting unemployment, became some of the challenges facing the country's economy. In response, the first governments following independence started implementing a policy mix of economic liberalization, privatization of state owned companies and macroeconomic stabilization (cf. Bartlett 2008: 27; Töpfer 2012: 283-90). The taking of this new direction was justified by the "collapsing socialist economic system, so that the new system essentially reflected that – the oversized social protection, the high level of social equality were being abandoned in order to give economic efficiency a chance" (Popovski, interview [my translation]).

Between 1992 and 1994, Macedonian governments introduced three stabilization programs. Kljusev government's anti-inflation stabilization program proved ineffective, as it lacked the necessary political support. The Parliament approved a decision to increase salaries and wages of all employees, in absence of increasing tax revenues, undermined the stabilization program (Gligorov 2002: 247). The first political government's stabilization attempt also failed, due to the continued selective subsidizing of farmers and loss-making enterprises (Bartlett 2008: 26). Thus, it was only after the Stand-by Arrangement with the IMF and additional World Bank loans that the third stabilization program introduced in 1994 started showing effects. The stabilization was achieved at the expense of public expenditure, which fell from 53,6 percent (1993) to 35 percent (1998) (EBRD 2010a). Most of the cuts affected the subsidies, the capital expenditures and the pension payments (World Bank 2002a: iii). Additionally, payments of wages became late and

measures such as the Wage Control Law caused a fall in their value (IMF 1998: 11-14). At the same time, during that period, private consumption, albeit residual, grew. Its growth was attributed partly to transfers from abroad, while partly it was left unexplained, in particular when the wage restrictions and lowered social transfers are taken into consideration (IMF 1998: 11). In that sense, it has to be mentioned that informal activity of both enterprises and individuals started booming during that time. According to some estimates the informal activity represented 20-30 percent of GDP (IMF 1998: 10). The informal economy was in fact tolerated and was not countered by an effective state tax policy, as it became a useful buffer against people's dissatisfaction with the transformation processes which had their jobs and benefits stripped from them. As Nano Ružin summarized it:

“The Budget was small. Such short-term and inadequate tax policy was reflected in an inefficient social policy. [...] However, people punished that in 1998. The defeat of SDSM was not a result of a certain pro-VMRO mood, but of social discontent, especially among the poorest segments, which expected better social feedback. Then there were also the pyramidal savings scheme²⁰⁰, corruptive deals, the unsuccessful transition, privatization etc. Thus, we can conclude that the unsuccessful social policy indirectly motivated the electorate to vote against the government“ (Ružin, interview [my translation]).

Privatization in Macedonia started early, already under the Marković law in Yugoslavia and continued under the new privatization law (1993)²⁰¹. The privatization was largely completed by 1997 (Bartlett 2008: 68), although there have been several large state owned companies which became privatized at a later stage. During this time, a significant proportion of people who worked in the previously socially owned enterprises lost their jobs, while job creation in the newly privatized companies was meager. Additionally, the state had not established a social fund which could have, at least partially, alleviated the social hardships caused by the privatization and economic liberalization processes (Töpfer 2012: 287). The laid off workers could find temporary shelter in the *unemployment protection system*. Although deeper interventions in the system during that period were left out, certain rights, such as the duration of the unemployment benefit or its amount were trimmed. Similarly, parametric reforms in the *pension and disability insurance system* were initiated early (1993) and thus prevented the newly unemployed from

seeking refuge in it. Moreover, in 1994, pensions were frozen based on a government decision. In 1999, by court order, which found that pensions had to have been indexed, this decision was overturned and the subsequent government commenced repaying the debt towards the pensioners (World Bank 2002a: 6).

Ever since the promulgation of the new Labor Code²⁰², *labor relations* have been subject to continuous deregulation. Also, the bankruptcy legislation exacerbated the dire situation of the shrinking workforce. Enterprises often chose bankruptcy as a way of restructuring, since “workers dismissed during the bankruptcy process did not have the same rights to severance pay or notice of dismissal as other workers” (IMF 1998: 24), and because it gave them an easy way to escape their debts. The ownership transformation process turned out to be highly unfavorable to the workers. Albeit organized in the form of insider privatization, during the process workers often lost their shares to the managers or had their shares devalued through fragmentation of the big companies into a lot of small units. The Macedonian economy was previously integrated in the overall Yugoslav economy, and to a small degree externally oriented. With Yugoslavia’s violent breakdown those connections were lost, whilst new companies failed to catch up in time, partly due to micro factors, such as corrupt practices, lack of know-how, small size, and partly due to circumstances on macro level, like the internal political crises or the uncertain regional situation.

The only, and rather belated, social measure in this sense was a 1997 legislation²⁰³ aiming to increase the level of employment, by providing incentives to enterprises in the form of exemption from payment of social security contributions for new employees. The money for covering the costs for social security contributions was provided by the state. At first, the law targeted mainly persons who have been registered as unemployed for over a year or workers who have lost their jobs within the restructuring and liquidation processes, but soon it was amended²⁰⁴ to refer to all unemployed persons who were registered in front of the Employment Bureau. The law was of limited duration of two years (1998-1999), and already within the first months around 30.000 employment claims were made, out of which it was assumed that most represented formal registration of unreported workers, while around 13.000 did not qualify under the law and were considered genuinely new hires (IMF 1998: 15).

During the period in question (1992-1998) the focus was on “survival of the welfare system, which was at the same time undergoing transition” (Ružin, interview [my translation]). Thus, the *social protection system* was adjusted to respond to the ever increasing number of people in need. Given the growing pressure on public finances, social assistance was targeted towards the highest poverty-stricken segments of society, such as large poor families with children (World Bank 1999a: 66). The first legislation on social protection following the independence was adopted in 1997²⁰⁵, introducing comprehensive and innovative forms of welfare services (Gerovska-Mitev 2007: 135). However, as Nano Ružin told me, also referring to the unemployment protection legislation: “the funds were so minimal, that in fact they lost their meaning [...] from a legal point of view, the social insurance legal framework was established, but its financial pillars were very weak” (Ružin, interview [my translation]).

The *healthcare system* was also “forced into a state of ad-hoc adjustment to the dramatic fall in public health finances [...] which resulted into financial debts of healthcare providers of up to 40 million US dollars by 1997” (Bornarova 2011: 153). However, apart from some minor interventions, such as introduction of co-payments and setting the legal ground for privatization of health services, not much changed. The healthcare system was put on ‘life support’, while the signing of the first loan arrangement with the World Bank in 1996 (Bornarova 2011: 153) laid the basis for future pro-market reforms.

As early as the nineties, Macedonian governments started to shape the welfare system according to their ‘economic efficiency’²⁰⁶ agenda, which would become more pronounced in the subsequent period.

6.4.2 Conflict and EU candidanship (1998-2006)

The new VMRO-DPMNE-led government opted for a policy of ‘economic liberalism’ as an exit strategy from the deep economic and social challenges in the country, which led to the power-shift in 1998. In its program the government announced series of market friendly measures to boost economic growth. Starting from the premises of such economic philosophy, the government intended to cut back on public spending by 17 percent until 2002 and thus achieve development and employment (Sobranie na RM 1998). Welfare benefits were seen as an obstacle to development and therefore the government proposed greater targeting, in particular of social

assistance, and introduction of private elements, which during their term of office came to light within the pension system. Following the conviction that the best social policy is the one that provides work, the government chose to focus on implementation of economic measures which would stimulate employment, such as tax cuts and continuation of the privatization with the intention to attract foreign investment.

In reality, several factors stood in the way of the realization of these goals. The vicious circle of corrupt links among large enterprises, state organs and political parties which had been created was not only not interrupted, but further exacerbated. During this period a condition of “full state capture together with administrative coercion” (ICG 2002: 7) was achieved, which countered the proclaimed goals of economic development and job growth. Furthermore, the 1999 Kosovo crisis which brought a high number of refugees into the country created high fiscal pressures, as did the subsequent 2001 conflict and the necessity to implement the Ohrid Framework Agreement. In a situation of declining economic performance and consistently problematic situation with revenue collection, public expenditure started increasing²⁰⁷, which contradicted the government’s initial goals. As a result, accumulation of arrears persisted, particularly in the social sectors (World Bank 2002a: 6). Nevertheless, despite the extraordinary circumstances, the government managed to realize some important reforms within the welfare system. In 1998, the World Bank approved two Credits to Macedonia: The Social Sector Adjustment Credit, which foresaw reforms in all sectors of the welfare system and the Pension Reform Technical Assistance Credit, which was particularly aimed at structural changes within the *pension system* (Fornero and Ferraresi 2007: 16). A Pension Steering Committee comprising of different public institutions’ representatives and working in strict cooperation with World Bank officials prepared a reform proposal which found way into legislation in 2000 and 2002 (Fornero and Ferraresi 2007: 8). Significant changes were introduced with the new Health Insurance Law (2000)²⁰⁸ regarding the way of financing of *healthcare services* in the direction of cost-containment through capitation-based payment on primary care level and global budgets for hospitals (Gjorgjev et al. 2006: 79). Generally, this was part of the projects started in the previous period which were associated with the loan arrangements with the International Financial Institutions and aimed at establishing an efficient social safety net according to their recommendations.

The 2002 parliamentary elections brought the Social-Democrats to power and they did not reverse the process of ‘neoliberal’ reform in the economy and the welfare system. New arrangements with the International Financial Institutions as well as the commitment to follow their guidelines, which consisted of tight microeconomic policies and structural reforms in the welfare sector, were announced (Sobranie na RM 2002; IMF 2002; World Bank 2002a). In 2003, the government signed a new Stand-By Arrangement with the IMF and introduced a new stabilization program, thanks to which public expenditure between 2002 and 2006 amounted around 34% of the GDP (EBRD 2010a). These policies somewhat clashed with the requirements from the OFA to increase the number of persons from non-majority communities working in public administration. In order to achieve this obligation, the government resorted to a “decompression of civil servant wages and [...] a gradual reduction in the wage bill in percent of GDP” (World Bank 2008b: 7). Apart from employment of other ethnic groups, mainly Albanians, in the public sectors, job creation remained elusive also during this period. Driven mainly by the international financial institutions’ advice, the labor market legislation was further liberalized, passive labor market instruments were further downgraded, whilst activation strategies intensified (ILO and CoE 2007b: 26; Gerovska-Mitev 2007: 134). However, this did not improve the labor market situation. The approach caused “double damage” (Ružin, interview [my translation]), as it neither increased employment, nor protected people who were out of a job.

Simultaneously, the *social safety net* was further residualized under the pressure of the international organizations (Bornarova 2011: 145). In order to reduce the number of social assistance recipients, in 2003 the government practically erased around 20.000 beneficiaries by decree, which was later overthrown by the Constitutional Court (Bornarova 2011: 145). The 2004 legislative changes to the Law on Social Care intended to move away from the concept of only state-provided welfare and introduce elements of pluralization, decentralization and deinstitutionalization. The World Bank praised that “The Government of Macedonia has already been bold in initiating reform of the safety net” (World Bank 2009: xxii), large part of which took place under the auspices of its loan arrangements²⁰⁹, however it kept on insisting on further tightening of the system. Its report for that period (2002-2006) stated that “the system needs to be upgraded to standardize the application of the eligibility criteria, improve targeting, and

reduce leakage to the non-poor” (World Bank 2009: xxii), which would become a liability of next governments.

Upon the completion of the first World Bank loan arrangement in the *healthcare sector* (1996), the Macedonian government signed a new loan arrangement in 2004 whose focus was on reforms in public expenditure management, achievement of efficiency, accessibility, quality and decentralization of healthcare services (World Bank 2004b). Progress was made in preparing the ground for privatization of primary healthcare, dental services and pharmacies, and further developing the new ways of financing healthcare services. The trend of withdrawal of public healthcare provision would particularly intensify in the coming period. Also in the *pension system*, with the support of the World Bank, the government simply continued implementing the paradigmatic reforms of partial privatization initiated before. In 2006 the second pillar became operational.

6.4.3 The VMRO-DPMNE dominance (2006-2012)

People’s demand for jobs and income was what prompted the electoral shift in 2006. The new government was headed by the leader of VMRO-DPMNE Nikola Gruevski, an “economically savvy technocrat who over time has developed into a hard-line nationalist” (Marusic 2011). The new government announced an aggressive economic liberalization program, which has been ‘spiced up’ with a variety of populist measures. Considering that the anticipated economic progress was not achieved, the governments after 2006 resorted to selective measures which brought the inherent Macedonian features of clientelism and state capture to a whole new level. Nikola Popovski explained this antagonism in VMRO-DPMNE’s rule as such:

“On the one hand, VMRO-DPMNE defines itself as a conservative party [...], and promotes a liberal market philosophy; on the other hand, because of its voters, its embeddedness in the lower social strata across the rural and suburban areas, it comes into contradiction with its electoral base” (Popovski, interview [my translation]).

In that sense, the post 2006 governments introduced a range of market friendly measures, among others a flat-tax rate and dramatic lowering of social security contributions. Conversely, discriminatory interventionist measures were used in exchange for political support, which

ranged from instruments of larger scope, such as employment in public administration and awarding agricultural subsidies, to smaller measures with limited impact, like free public transport for pensioners on certain days, free spa for certain pensioners, social housing, computer vouchers for students etc.

Despite the tax rate reduction a more disciplined tax collection policy prompted an increase of public revenues. However, if economic growth was previously moderate, in 2009 it was halted, which coincided with the global economic crisis. In order to meet its fiscal obligations, the government intensified the process of internal and external borrowing. A highly controversial government project ‘Skopje 2014’, whose purpose was a drastic makeover of the country’s capital through a proliferation of buildings and sculptures, triggered an increase of the economic growth rate²¹⁰. In reality, it distorted the real socio-economic situation on the ground. Set of measures for alleviating the economic hardship of ailing companies were announced at the onset of the crisis (2009) consisting of writing-off companies’ liabilities for social security contributions and taxes, as well as their further reduction (Rahkola et al. 2009).

Guided by interests of power, the measures were selectively applied. While some companies which owed paying social security contributions for their workers or had tax obligations towards the state were rehabilitated, others²¹¹ were persecuted and even forced into bankruptcies. Additionally, frequent changes²¹² to the *labor legislation* between 2006 and 2012 put the employers and employees in an unequal position. The amendments not only reduced workers’ rights, but they also introduced high penalties for them if they failed to report the employers that violated the provisions of the law. Many of these discriminatory stipulations were overthrown by the Constitutional Court upon the initiative of private individuals, the trade union or civic organizations. As a result, the Constitutional Court itself became a target of political pressure. Moreover, various market-friendly measures to attract foreign investment upgraded Macedonia’s ranking on the World Bank Doing Business score, however, “important business climate issues, such as judicial reform and corruption” (EBRD 2012: 112) remained as serious impediments.

In 2008, the government introduced a legislation²¹³ which awarded the right to monthly compensation of workers who have lost their jobs in the privatization process of state enterprises between 2000 and 2004. The measure, albeit favorable to the unemployed who have been getting

less and less protection by the state, was exclusive, as it did not encompass all redundant workers but only those from the given period, as well as due to the fact that it came as a result of an electoral promise by the Prime Minister Gruevski who asked for political support by this group in the upcoming elections.

Generally, the government's tax and social security contribution debt forgiveness, coupled with the irresponsible spending on 'Skopje 2014' seriously imperiled other public expenditure, in particular the social spending. As a result, following the expiration of previous loan arrangements supporting the welfare system reforms, a new loan arrangement with the World Bank, aiming "to improve the efficiency of public expenditures and public financial management, strengthen health systems, and improve the targeting of social assistance and social inclusion" (World Bank 2013) was signed.

Spending on *social protection* was already drastically reduced throughout the Gruevski governments' rule, thus it is unclear in which way this new loan should contribute to higher efficiency of the system. For instance, the total number of beneficiaries who were entitled to some kind of a welfare benefit in 2006 was 92.727, and in 2011 it was 67.395 (Table 33), which represents a 30 percent reduction in the number of recipients. Considering the pervasive poverty rate of 30 percent, the fact that around 5 per cent of the population²¹⁴ received some sort of benefit was proportionally very low. Also, instead of in relative terms to salaries, in 2009 the benefits were fixed in absolute terms, so that it could contribute to additional savings. Delays in payments additionally exacerbated the dire conditions which characterize the Macedonian social protection system (cf. Bertelsmann Stiftung 2012b: 23). In 2010, the government introduced a financial subsidy²¹⁵ for energy consumption for social assistance beneficiaries (Bornarova 2011: 147) and increased it in 2012, however, due to complicated administrative procedures for its attainment, as well its low amount, its impact was reduced (Gerovska-Mitev 2013: 190).

The VMRO-DPMNE-led governments undertook various steps to reduce costs in the *healthcare system*, which primarily negatively reflected on the end users. Supported by the World Bank loan, the government finalized the privatization of the primary healthcare sector, introduced a new payment system for hospitals based on DRG and performance, reformed the basic benefit package etc. Furthermore, by frequently changing the legislation²¹⁶, the government

experimented with various proposals for better efficiency, which eventually created negative repercussions for the public sector and the individual patients. Simultaneously, there was a proliferation of private health service providers.

A “two-tiered hospital system” was thus created - a “public hospital system covered by social health insurance, with limited budgets, poor infrastructure and equipment, and a low quality of health services, and [...] a private ‘state-of-the-art’ hospital system, with well-known doctors, modern technology and equipment, where patients generally finance health services privately“ (Lazarevik and Donev 2012: 150).

Patients have been forced to turn to the private providers, because albeit already paying for public health insurance, they have been often unable to get timely and proper service by public health providers. Additionally, the medical staff has been leaving the public for the private sector, due to better work conditions and pay, as well as the enormous political pressure in the public sector. A clear example was the government’s effort to curb the strike of the public sector medical personnel against the salary cuts and the nontransparent implementation of the performance based payments (cf. Dnevnik 2012b). Paradoxically, despite strong efforts to reduce costs, which eventually only caused public sector deterioration and hurt the patients, it has been exactly the high level of involvement of politics that prevented the realization of this goal. The political parties in power used the healthcare sector for massive employment of their members and supporters. In particular the principles of the OFA have been instrumentalized in this sense (Lazarevik and Donev 2012: 154). Additionally, despite efforts to improve public sector governance, mainly advocated by the international organizations, the management has remained highly politicized and ridden by corruption (cf. Apostolska and Tozija 2010).

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* (PIOM 2011). Following World Bank recommendations (cf. World Bank 2008b), in 2008 the Macedonian government initiated reform of the mandatory fully funded pillar by reducing the fees that private pension funds can charge in order to ensure more adequate future retirement income (Apostolska and Tozija 2010: 9). In this direction, changes, such as introduction of new financial instruments and relaxing the investment limits for pension

fund assets, have been initiated for the purpose of bigger diversification of pension fund assets and of decreasing the risks from limited investing possibilities or small number of allowed instruments (Apostolska and Gulija 2011: 3). 2011 changes, withholding assets of the Agency for Supervision of Fully-funded Pension Insurance in the central budget were heavily criticized by the opposition (Apostolska and Gulija 2011: 10). This unilateral government intervention was a populist attempt to sustain a stable level of pension expenditure given the large public pension fund deficit. Notwithstanding the undertaken parametric and paradigmatic reforms, pensioners were perceived as politically important, which is why the government has made various concessions to this social group, such as announcing a 5 percent raise of the pension benefits (24 Vesti 2012), or other smaller interventions like free public transport for pensioners on certain days, free spa for certain pensioners etc.

6.5 Agency and Cleavage Structures: Neoliberal Approach

Throughout the transition all Macedonian governments have been decomposing the inherited welfare system through consistent shrinking of the public provision of social services and gradual introduction of private elements. Pursuant to the constitution the country formally defines itself as a social state, however, the concrete policy-making has failed to reflect the principles of solidarity and social justice. Following the premises of the dominant neoliberal trend, mainly advocated by the international financial institutions, the governments aimed at turning the welfare state into a means of last resort. Over time, and especially during the last years, a residual welfare system started to take shape. At times, certain policies, in particular in the area of unemployment and social protection, and even healthcare, gave the impression that, if the option were there, the governments would completely get rid of social policies. Alternatively, at other times, certain social measures would bring the state back in, but chiefly as an *ad hoc* response to certain ‘burning’ problems or in the service of populism.

Evidence has suggested that even with alteration of *parties* in power, the trend of infusing an economic efficiency agenda in the social policies has not been halted. Zdravko Saveski summarized the continuity in the social policy making by the different actors as such:

“There was no qualitative difference between the governments of SDSM and VMRO-DPMNE. All of them have cut social programs. There is only a difference between all

previous governments and the last VMRO-DPMNE government in the extent of the cuts. This one, compared to the others, is implementing drastic cuts in social programs” (Saveski, interview [my translation]).

A study of the Institute for Sociological, Political and Juridical Research – Skopje, examining the political parties in Macedonia, the social cleavages that the parties are structured on and their ideological political profiling, on the example of the four major parties in the Macedonian and Albanian political block (SDSM, VMRO-DPMNE, BDI and PDSH), has found that the classical socio-economic division between the ‘left’ and the ‘right’ is almost impossible to apply to the Macedonian case and that the differentiation line should be sought for in the liberal-conservative division based on social values and national identity (Hristova 2011).

Within the Macedonian political block, VMRO-DPMNE has defined itself as a national party with demo-christian orientation, which has in time positioned itself away from the center and to the right (Hofmeister and Grabow 2013: 103). It was founded as a nationalist party, building upon the Macedonian national movement of the 19th and 20th century. Over time, its identity and national discourse evolved²¹⁷ and contributed to greater confusion in the anyway fragile Macedonian nation-building project. Despite the extremely nationalistic rhetoric, when it came to power, it had no problem building a coalition government and collaborating with any Albanian party, including the former Albanian rebels. The party has had socially conservative stances – it has been promoting traditional family and religious values, has been rather intolerant towards diversity of any kind, and has generally pursued policies of punishment and control. In economic sense, the party has promoted policies which have had a more pronounced liberal component when compared to SDSM. Since 2007 VMRO-DPMNE has been associated with the European People’s Party.

SDSM is a successor party of the former League of Communists of Macedonia. Despite the communist legacy, the party became a front-runner in initiating and implementing a great deal of market-based reforms. Later on, in particular during the conflict and after the signing of the OFA, the party became widely perceived as a party which promotes liberal values in social sense, such as tolerance, respect, mutual dialogue, secularity etc. The party describes itself as a social-democratic party and has recently sought to justify this definition in socio-economic sense

as well. However, talking about the ‘Macedonian infatuation with capitalism’, Saveski argues that SDSM’s most radical proposals²¹⁸ represent only pale corrections of VMRO-DPMNE’s neoliberalism (Saveski 2013). SDSM has been a full member of the Socialist International and an associate member of the Party of European Socialists.

An obvious political and social cleavage was along ethnic lines (cf. Hristova 2011). The political constellation reflects the ethnic divisions in the country. Thus, ethnic Macedonians vote for Macedonian political parties, ethnic Albanians - for Albanian political parties. Smaller parties have been formed to represent smaller ethnic communities and they usually exist mainly as coalitions with the bigger parties from the Macedonian political block. Apparent ideological profiling among the Albanian parties cannot be distinguished and even clear self-definitions have been lacking. Their focus has been mainly on the political rights of the ethnic Albanians in Macedonia and the implementation of the OFA. In the field of social policies, as holders of office in the Ministry of Labor and Social Affairs and the Ministry of Health, they principally followed the general government policies, which were set by the Macedonian partner or negotiated with the international financial institutions.

“Their role [referring to the Albanian parties] is marginal. The focus of the Albanians in the politics of Macedonia was never directed towards anything other than their ethnic issues. [...] even when they held Ministries, their focus was never towards addressing the topic of our discussion [...] if there was ever interest, it was exclusively related to the social rights of their ethnic community, for instance the rights of former NLA fighters“ (Popovski, interview [my translation]).

Unlike the parties, evidence has shown that the majority of citizens (around 70%) share ‘leftist’ values and expect the state to provide better public services and to take full responsibility of the citizen’s social security, expect the public provision of healthcare and education services not to be of worse quality than those offered by private providers, are in favor of smaller social inequality, and in favor of co-decision rights at the workplace (Hristova 2011: 193). These values are fairly equally shared by both the Macedonian and Albanian ethnic communities. The fact that these values have not been reflected in real policies and have over time been neglected remarkably, may point out to the existence of “two political arenas, which (co)exist

simultaneously: one at the level of political parties and political competition and the other at the level of the citizen/voter” (Hristova 2011: 253). This ignoring of the citizens’ needs and lack of competing social policy ideas has resulted mainly in lower voter turn-out (Annex II). It has also suggested that other factors may explain how parties could get away with the policies they pursued.

The evidence above suggests that *international organizations* have been the main driver behind social policy reforms in Macedonia, as well as in the other countries of the region. Through their loan arrangements, particularly the international financial institutions could limit the policy choices of the Macedonian governments. The IMF insisted on budgetary cuts and the World Bank offered concepts for structural reform in various areas of the welfare system to make them more efficient and better targeted. Other multilateral and bilateral agencies have also been active on the ground but their involvement has been of smaller scope. The European Union has played a modest role in the area of social policy reform (Gerovska-Mitev 2004: 16). After the signing of the Stabilization and Association Agreement (2001) and the introduction of the CARDS assistance programme, the EU became somewhat involved in Macedonia in order to prepare the process of adoption of the Community social *acquis*. Nevertheless, as Gerovska-Mitev (2004) argues, the involvement was small and only complemented the neoliberal policies of the Breton Woods institutions. Although the process of EU accession may have positive implications on social expenditures, anti-discrimination and inclusion, inter-agency coordination and social impact assessment, its impact in Macedonia has been limited, partly as a result of certain inadequacies with the pre-accession instruments and partly due to the specific nature of Macedonia’s candidanship (Gerovska-Mitev 2013).

Apart from the political parties which could directly influence social policies through their participation in power, *other domestic actors* had little influence. Most influential has been the *new business elite* and its associations which have played a powerful role in Macedonian political life (Siljanovska-Davkova 2005: 54). Largely this had to do with the problematic transformation of the social capital which enabled a group of people belonging to the political elite or having close ties to it to get incredibly rich. These oligarchs, that were created throughout the transition, during the mandates of different governments, began to use their economic influence to exercise control over politics in order to preserve their privileges. The ties between

the economic and political elite have been mostly informal, but also formally governments have shown more readiness to take into account proposals coming from the business associations rather than workers' organizations.

The interviewed experts agreed that the *trade unions* have played an insignificant part in the social-policy making in the country. As a result of the restructuring process trade unions were weakened both financially and organizationally. While protests and strikes were a frequent phenomenon in companies that were failing or being badly privatized, they remained largely at the level of individual cases. In principle, protests have not had a significant impact, barring some minor concessions to labor's demands made in some cases. Massive popular mobilization of labor did not occur and hence workers found themselves in quite an unenviable situation - unemployed and unprotected. An additional problem for the unions' lack of success was also the labor-unfriendly attitude of the political elites, regardless of their political coloring. This was mirrored in the legislation that has been restricting workers' rights while allowing manipulated privatizations at their expense. Finally, the politicization of union leaders, who gave certain economic and political privileges preference over representation of labor interests, underscored labor weakness. Social dialogue in the country has been practically inexistent. Despite the fact that an Economic and Social Council (ESC) was founded in 1996, it did not become operational until 2010, as a result of the lack of political will, discordance among unions and vague criteria regarding their representativeness (SSM 2013). Under the auspices of the European Union, who was the main driving force of social dialogue, at least formally the ESC²¹⁹ assumed work. It is worth mentioning that the change in the leadership of the largest trade union umbrella organization (SSM) coincided with the government's 'change of heart' regarding the acceptance of dialogue with the social partners.

There has been a proliferation of civic organizations²²⁰, however, the *civil sector* has been generally weak and unable to influence governments' decision-making. Moreover, civil organizations have generally tended to neglect economic and social issues. The associations of the defenders from the 2001 conflict have been a notable exception - they managed to keep the issue regarding granting of special social rights to the former defendants and their families on the political agenda for a whole decade. In 2012, a bill put forward by the parliamentary group of VMRO-DPMNE became a source of conflict within the government coalition, since the

Albanian partner (BDI) proposed to amend it so that it would encompass also the former rebels from the 2001 conflict. In February 2013, the parties of the ruling coalition swiftly adopted new rules of parliamentary procedure, which envisaged a strict time limit on the discussions of members of parliament. The rules, however, did not apply to the discussions within the parliamentary committee on labor and social policy, whose work remained blocked by the 15.000 amendments proposed by the parliamentary group of BDI to the draft law on the Macedonian defenders.

Thus, the issue was postponed to be subsequently negotiated between the partners in the government. In principle, it was less of a social policy issue, but rather a reflection of ethnic cleavages in the country which were both exploited and exacerbated by political elites. Through awarding concessions to certain groups in society, which were considered electorally important, the political elites made targeted use of public resources in function of winning power or staying in power. Promises made to the Macedonian defenders and possibly the NLA fighters for special social rights, promises to pensioners for increased pensions, employments in the public administration made on ethnic and party bases, etc. were a reflection of the culture of clientelism. Despite similar value orientation within the population, the society has been highly polarized, mainly on ethnical and political basis. The seizure of power gave political parties the possibility to reward political supporters who expected employment, benefits etc. in return for votes. Guided mainly by the desire for power and privileges, the elites adjusted the use of public resources according to their interests, at the same time neglecting the social policy as means for improvement of the wellbeing of individuals and society. Simultaneously, weak civil society, weak democratic institutions, as well as the unfavorable agenda of the international organizations further contributed to marginalization of social policy. Continuously poor socio-economic indicators, such as low level of development, pervasive unemployment, large inequalities, suggest that “the policy of economic efficiency does not yield results, while we lost the other one [referring to social policy under communism]” (Popovski, interview [my translation]).

Poor countries are poor because those who have power make choices that create poverty. They get it wrong not by mistake or ignorance but on purpose.

Daron Acemoglu and James A. Robinson

(Why Nations Fail: The Origins of Power, Prosperity and Poverty)

To be sure that this new economy benefits us all and not just the plutocrats, we need a new New Deal.

Chrystia Freeland

(Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else)

7 Conclusion

After a recount of the main economic, political and regional aspects of the Yugoslav welfare system, a detailed presentation of the welfare systems' development in Slovenia, Croatia, Serbia and Macedonia following the Yugoslav dissolution, and an analysis of the politics of welfare in the selected cases during twenty years of transition, this chapter contrasts the findings in a comparative perspective. The study addressed the questions regarding the type of welfare systems that emerged in the different countries, the elements which survived and the reforms that were implemented, and the combination of variables that best accounted for the post-communist welfare state trajectories. It aimed at integrating the socio-economic, institutionalist and agency-centered theoretical approaches in one framework. Welfare policies are at the center of analysis, through which the study hopes to show the complexity of the triple transition (economic, political and territorial) (Offe 1996), their embeddedness in given space and time, and expected possible future developments in a globally connected world. Here I summarize the main findings, revisit the main assumptions and consider recent challenges.

7.1 Welfare Policies

The former Yugoslavia had developed a rather generous welfare system based on the principles of solidarity and equality. It was constructed as a mixed Bismarckian-Beveridgean system, comprising of 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. Below I briefly outline the changes to the main branches of the welfare system following the break-up of Yugoslavia.

Slovenia's welfare model exhibits features of a mixed conservative (Bismarckian) and social-democratic (Beveridgean) system. The *pension system* retained its public character and the principles of intergenerational solidarity. Despite the reform induced constraints, coverage has remained extensive and benefit levels generous. The reform itself reinforced the system's solidaristic component through the introduction of several redistributive elements. The financial responsibility for old-age was partially transferred onto the individuals through the introduction of a supplementary scheme based on individualized savings. However, expected investment returns from the second pillar seem unsatisfactory, while the public pillar registers growing fiscal pressures. The *healthcare system* is insurance based and guarantees universal healthcare protection. Slovenia initiated a healthcare reform relatively early following the independence by allowing penetration of private elements, mainly through the introduction of voluntary insurance and the expansion of the private practice. Additionally, various cost-containment measures have been implemented, like modification of payment methods and rationalization within public health institutions. Still, the state retained strong presence by setting a level playing field for the operation of voluntary insurance, and by contracting a solid network of healthcare providers, thus guaranteeing universal access of the population. The *unemployment protection system* rests upon the principles of social insurance against the risk of unemployment. The rapid economic recovery curbed the unemployment rates relatively early in the transition. Also activation strategies soon became an important part of the labor market policies. Passive support measures were kept relatively generous but the coverage of the unemployed was low. During the last few years, the concept of flexicurity took hold, reflected in the reforms which abolished the unemployment assistance, strengthened the relationship between the benefits and the labor market, and initiated better inclusion of some vulnerable categories (youth and the elderly). The *social protection system* is tax based, public and centralized. It has been relatively wide-ranging

in the provision of a generous social safety net, based on the principles of solidarity and equality. In recent years social benefits have been more strongly correlated to the labor market activation policies. The most recent reform foresaw further rationalization of the system, however there has been little time to evaluate its effects, related to the extraordinary circumstances emanating from the global crisis.

Croatia kept the mixed Bismarckian/Beveridgean model while introducing some liberal elements. Despite the adoption of a multi-pillar scheme, the Croatian *pension system* has been characterized by numerous exceptions, concessions made to different categories (war veterans and their families) as well as other interventions in the system. The redistributive function is an important feature of the system in which the role of the individually capitalized scheme has been undermined. Nevertheless, the system is marked by imbalances within the public pay-as-you-go scheme as well as related to the restructuring into pillars, which increase the inequality among beneficiaries. The *healthcare system* rests upon the Bismarckian social insurance principle and guarantees universal healthcare protection. Such an inherited structure strained the public finances and motivated a series of reform attempts. The private sector increased, mainly through privatization of large part of the primary medical practice, introduction of complementary insurance and patients' individual financial participation. Nevertheless, private spending has been sustained at low levels and to a great extent covered by private insurance. The *unemployment protection system* was built upon the Bismarckian social insurance principle. The beginning of the transition inflated the unemployment to unprecedented levels and thus troubled the system's financial basis. The passive labor market measures were extended to meet the needs of the newcomers, as well as of special privileged categories. Active labor market measures intending to support the unemployed back to work were put into practice, albeit with very limited impact. The *social protection system* is tax based and managed by the central state authorities. The role of the local communities in provision of welfare has remained marginal. The private sector has been most active in the provision of care for the elderly. During the 1990s the social protection system was enlarged in order to cope with the direct consequences from the war. After 2000 it continued to provide a social safety net for various categories in need. Existing welfare schemes have held up, being characterized by arbitrary political interventions in the types and amounts of social benefits.

Serbia retained most of the features of its inherited conservative welfare system and some reforms have kicked off in line with the dominant liberalizing trends. The *pension system* kept its public character and the principles of intergenerational solidarity. The private element has been marginal in the form of voluntary insurance. During the first decade of the transition the system practically collapsed and was later revived. Its stabilization and financial consolidation was initiated. The condition of the beneficiaries improved compared to the decade before. Nevertheless, priority was given to fiscal consolidation, which occurred at the expense of the beneficiaries, since access to the system as well as benefit levels have been restricted. The *healthcare system* is organized on the basis of social insurance but also strives for universal coverage. The practically collapsed infrastructure in the 1990s was later revitalized and the system was fiscally stabilized. The state preserved the dominant role in the provision of healthcare services, but also the private sector expanded. The health outcomes improved as a result, however the system failed to reach the whole population. Additionally, healthcare benefits were restricted at the expense of individual financial responsibility of patients. Reforms aiming mainly at improvement of the system's cost effectiveness have been on their way. The *unemployment protection system* is based on the principle of social insurance. During the first decade of the transition the halting of the economic activity produced hidden unemployment that became visible only after 2000. The unemployment protection system could not offer a sound safety net to the unemployment created by the privatization- and restructuring process. A minor fraction of the unemployed benefited from the insurance scheme. Reactivation in the labor market through employment measures was marginal. The state secured a temporary buffer against loss of income in the socially/state owned capital transformation process, through the establishment and continuous funding of a social program. The *social protection system* is tax based and managed by the central state authorities. International aid strongly contributed to the restoration of the welfare infrastructure and the debt repayment, while the state reinstated the welfare schemes. Reforms focused on the improvement of targeting. The combination of low coverage and low benefit levels has made poverty reduction highly questionable. The inclusion of local communities and other actors was facilitated by state-led projects. The private sector became involved in the provision of care for the elderly.

Macedonia gradually abandoned the inherited welfare system and started developing a residual model of welfare. The Macedonian *pension system* entered a phase of reforms fairly early. The

public pay-as-you-go scheme was rationalized and public finances stabilized, although coverage was negatively affected. Expenditure rationalization has also affected the scope and adequacy of benefit amounts. The fact that the focus has been on fiscal consolidation is reflected also in the decision to introduce a mandatory fully funded pillar. The *healthcare system* is insurance based and foresees universal access. Expenditure cuts and disinvestments in public facilities on the one hand, and proliferation of private providers, privatization of primary care and expansion of out-of-pocket payments on the other, have created an imbalanced system. Whilst public institutions were marked by inefficiencies and deteriorating quality, private providers skimmed off both public and private money for modern and expensive health-services. The system was negatively biased towards the low-income groups, which have been experiencing various barriers to access - from poor service provided by the public sector to ultimate exclusion from insurance coverage. The *unemployment protection system* is social insurance based. The level of unemployment very quickly reached unprecedented proportions and has not recovered since. A small fraction of the workforce found temporary shelter in the unemployment protection system, but over time as the rights became more restricted, this social safety net disintegrated. The system has remained outdated given the fact that it penalizes users and offers no incentives for labor market inclusion. Activation policies have been insignificant. A large number of the workforce has remained trapped in informal labor relations. The *social protection system* is tax based and centrally managed. Local communities have been financially dependent on the central authorities. The private sector became somewhat involved through the provision of care for the elderly. The social safety net was porous to begin with and over time eroded to such an extent that only symbolically touched upon the most destitute.

7.2 Economic Variables

The Yugoslav economy has been deteriorating, thus contributing to growing interregional tensions. After the federation's break-up the economic situation continued to worsen, but the economic distress was unevenly distributed across the region. 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 percent of their 1989 GDP levels respectively (EBRD 2010a). 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. Slovenia was the first to secede with minor tensions and was also economically least affected. Slovenia surpassed its 1989 GDP level after a decade, Croatia surpassed its 1989 GDP level in 2006, Macedonia in 2008, while Serbia still has not done so (EBRD 2010a).

The collapse of the socially owned industrial facilities, which employed the largest number of people, contributed to massive lay-offs. Employment in the new millenium improved, however did not completely 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 people who had lost their jobs during the economic restructuring and who have been 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.

The selected socio-economic indicators in Table 35 show the conditions reached in the four countries after two decades of transition. 2009 is taken as a reference year, since in the aftermath of the global economic crisis indicators somewhat worsened. Slovenia's success in avoiding painful restructuring and averting deeper human suffering is clearly reflected in the indicators. In time, also Croatia improved its economic performance, followed by Serbia, whereas Macedonia has been the biggest laggard.

Table 35 Comparative socio-economic indicators (2009)

	Slovenia	Croatia	Serbia	Macedonia
GDP per capita in USD ^a	24,366	14,241	5,889	4,543
Labour participation rate (% of total population ages	59	53	61	56

15+) ^b				
Unemployment rate (% of total labour force) ^b	6	9	16.6	32.2
Inequality of income distribution (Gini index) ^b	22.7 ^f	27 ^c	27.8	43.2
National poverty rate ^c	17.1 ^f	18	17.7	31.1
Social spending (% of GDP) ^d	24.15 ^f	20.8 ^f	18.7	15.1
HDI ^e	0.876	0.793	0.761	0.725

Sources: ^a:EBRD 2010a; ^b:World Bank 2012; ^c: Croatian Bureau of Statistics 2012, Government of the Republic of Serbia 2010, Republic of Macedonia State Statistical Office 2012; ^d: Stambolieva and Dehnert 2011; ^e: UNDP 2012; ^f: Eurostat 2012.

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

The national poverty rates in Slovenia, 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 Slovenian HDI was close to the average of countries with very high level of human development (0.885). 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.

The respective socio-economic indicators reached occurred during the process of economic transformation from a semi-closed into a market economy. The European Bank for Reconstruction and Development (EBRD) has developed a set of indicators which measure the economic reform progress in transitional countries. Each indicator is scored from 1 to 4 and +, where 1 demonstrates little progress and 4+ demonstrates standards and performance typical of advanced industrial economies (Table 36). Interestingly, the information on economic

transformation does not allow for the same straightforward country gradation like in the case of economic success. The EBRD indicators incorporate a certain bias towards free markets; however the link between economic reform and economic achievements has not proven self-evident. Such bias has suffered from the deficiency of not taking sufficient “account of the institutional framework surrounding private sector development and the creation of markets” (Sanfey and Zeh 2012: 17). Albeit not questioning the prime of the market philosophy, inherent to the post-socialist transition, “it has become increasingly recognized that markets cannot function properly unless there are well-run, effective public institutions in place” (Sanfey and Zeh 2012: 17). Evidently, there have been other factors at play that have influenced the production and distribution of wealth, which brings us to the relevance of political variables.

Table 36 Transition indicators reached 2009

	Slovenia	Croatia	Serbia	Macedonia
Large-scale privatization	3	3.3	2.7	3.3
Small-scale privatization	4.3	4.3	3.7	4
Governance and enterprise restructuring	3	3	2.3	2.7
Price liberalization	4	4	4	4.3
Trade and forex system	4.3	4.3	4	4.3
Competition policy	2.7	3	2	2.3
<i>Average value (own calculation)</i>	<i>3.55</i>	<i>3.65</i>	<i>3.12</i>	<i>3.48</i>

Source: EBRD 2012.

7.3 Political Variables

Nationalistic mobilization was the outcome of the republican elites' response to the ethnic and social tensions of the eighties, which was eventually used to push people into war. The *wars* on the former Yugoslav territory were used for diverting attention from the economic hardship and created favorable conditions for the pursuit of authoritarian behavior. On the one hand, they gave the ruling elites the legitimacy 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. 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. Following 2000, socio-economic issues gained in salience, but paradoxically it was exactly then that the biggest welfare regime changes occurred. The reasons for that can be found in the fact that some reform processes were initiated in the previous decade, but started showing effects only later. Additionally, the *specificity of the legacies, the (defective) consolidation of democracy and the international trends* worked in favor or against the welfare state.

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. Despite the relative autonomy of the workers within the Yugoslav self-management system, workers were generally not able to organize themselves after the collapse of communism. A notable exception is the Slovenian case, where the social partners from the beginning participated in all major decisions on an equal footing with the government and negotiated a gradualist transformation model with a strong social dimension. The Yugoslav wars presented an opportunity for the channeling of class anger into divisions along ethnic and national lines and thus corroborated Crowley and Ost's argumentation that the abandoning of class identity post-communism creates space for the emergence of new type of identities (Crowley and Ost 2001). In Slovenia workers' anger did not translate into nationalist or other illiberal cleavages and was addressed by the political elites. Slovenia's successful way out of war certainly contributed to this, unlike the situation in Croatia, Serbia and Macedonia. But also inherited practices, which accounted for the different levels of development between the different former republics, have high explanatory potential. Stanojević argued that it was not the

weakness of labor, but the choices made by the national political elites that contributed to the diverging paths (Stanojević 2003). For instance, he showed 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 and Croatia the rise of the nationalists fuelled resentments on a national, ethnic and religious basis and eventually pushed peoples into war.

Existing differences within the federation intensified after the constitutional changes of the 1970s when higher degree of decentralization was introduced. Despite the fact that the states of the former Yugoslavia were part of one economic and political system, differences among the federal units were apparent, mostly regarding the level of economic development. The effects of the post-war industrial development of the common state were imbalanced, which kept certain republics or regions less developed compared to others. Rooted in a historical and geographical split, the imbalances were reproduced by the policies of the Federation. Industrial development was intentionally promoted in those regions that enjoyed geographical closeness to western markets and already had pre-war industrial experience. Some authors have confronted more distant historical factors with the communist legacy and have come up with three types of communist rule: bureaucratic-authoritarian communism, national-accommodative and patrimonial communism (Kitschelt et al. (1999). They classify Slovenia and Croatia within the national-accommodative communism, Macedonia in the framework of patrimonial communism and Serbia as a mix of both types. This has to do with the characteristics attributed to the different types. National-accommodative communism produced regimes with partially separated party rule and technical state administration. It was developed in countries with partially industrialized pre-communist market economy. Patrimonial communism relied on personal chains of dependence between leaders in the state and party apparatus and their entourage, buttressed by extensive patronage and clientelist networks. It was present in countries whose pre-communist economy was primarily dependent on agriculture. As these regimes were highly dependent on personal ties corruption was also wide-spread. Kitschelt et al.'s assumptions thus complement this study's findings that despite the shared socialist system and the achieved socio-economic progress of Yugoslavia, its fruits were not equally shared within the Federation - the

underdeveloped parts²²¹, like Macedonia, depended on federal transfers until the dissolution. The resource allocation policies underscored the diverse institutional memories, allowing the classification of Slovenia, Croatia, Serbia and Macedonia into separate regimes. According to Kitschelt et al. (1999), these diverse legacies have been particularly consequential in the post-communist transformation processes. My study presented evidence on the shared elements, the existing economic disparities and the political animosities in light of the secession. Given the results, the interrelation of initial conditions and patterns of post-communist regime development has turned out to be an important predictor of welfare outcomes.

The departure from communism instigated political changes. The Yugoslav successor states varied with regard to the political transformations and the level of democratization achieved. Various indexes have been developed in order to measure the progress in political reform. The Bertelsmann Transformation Index (BTI) and Freedom House, measuring democratic progress since 2003, have used similar criteria to measure democracy beyond the minimalist definitions of electoral democracy. Though there are some nuances in the different rankings, countries tend to be similarly judged. According to the BTI, Slovenia and Croatia have been found to be *consolidating democracies*, while Serbia and Macedonia have been associated with the concept of *'defective' democracy* (Bertelsmann Stiftung 2014). Defective systems still exhibit serious deficiencies, since they manage to cover up authoritarian practices under the facade of formally democratic institutions (cf. Merkel et al. 2003). Scores range between 10 as the best possible score and 1 as the lowest possible one. Consolidating democracies are those that hold a score between 8 and 10, and defective democracies hold a score between 6 and 8. Other possibilities are strongly defective democracies (4-6) and autocracies (less than 4). In 2010, Slovenia was awarded a score of 9.52 and Croatia that of 8.3. Macedonia held a score of 7.53, whereas Serbia that of 7.39. According to the Freedom House Nations in Transit reports, Slovenia has been a *consolidated democracy*, whereas Croatia, Serbia and Macedonia considered as *semi-consolidated democracies* (Freedom House 2013). Countries holding scores between 1.00 and 2.99 are considered consolidated democracies, whereas countries with scores between 3.00 and 3.99 are semi-consolidated democracies. Other classifications are transitional or hybrid regimes (4.00-4.99), semi-consolidated authoritarian regimes (5.00-5.99) and consolidated authoritarian regimes (6.00-7.00). In 2010, the scores were as follows - Slovenia: 1.93, Croatia: 3.71, Serbia: 3.71 and Macedonia: 3.79. Consolidated democracies are closest to developed liberal

democracies, whereas semi-consolidated democracies are electoral democracies that meet relatively high standards for the selection of national leaders but exhibit some weaknesses in the defense of political rights and civil liberties.

The collapse of communism implied abandonment of the old social contract which legitimized the given political order in exchange for basic economic standard and social benefits. Subsequent democratization was meant to pave the way towards a new social contract defined by political participation. This did not mean that popular demands for better life conditions would vanish, but under the new political conditions transform into rights-seeking claims. However, given the conditions of Yugoslavia's demise, during the nineties public voice had largely been silenced. As already argued above, the abandonment of class-based ideologies, the imposition of ethnic- and national-based divisions, and the use of existing and 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 (Esping-Andersen sense). 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 wars and the economic sanctions had 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; Džihic 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. Džihic et al. 2012). 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. Vanhuyse 2009).

This was especially the case in Macedonia and Serbia, where democratic consolidation has been slowest, partly aided by unfavorable external conditions, such as the dispute over Macedonia's name and Kosovo's unresolved status. Slovenia was extensively spared from experiencing such deficiencies, as it opted early on to build in the necessary mechanisms pertaining to democracy, which facilitate participation to influence welfare outcome. Although not completely freed from the ghosts of the past, Croatia's aided democratization empowered certain groups and institutions which affected welfare policy reform. Evidence from the four country cases showed that political elites had to seek political alliances within the newly opened up democratic space. As a result, welfare policy making has been guided by political pragmatism within the given institutional possibilities, rather than ideology driven. Welfare outcomes in the different countries had more to do with the political system characteristics rather than formal political colors. The fact that social partners have been incorporated in the policy-making structures from the beginning of the transition certainly facilitated the *neo-corporatist* decision-making approach in Slovenia which preferred gradualist transformation and retention of welfare benefits. Deferred democratization in Croatia made social policies contingent on power relations, forcing political elites to *accommodate* various social needs either to quiesce social groups or to meet their claims. Defective democratization in Serbia and Macedonia hampered already weakened social groups to play a key role in policy-shaping, making their welfare systems mainly contingent on elites' choices. Elites' approaches in Serbia and Macedonia nevertheless differed, depending on the different traditional and transitional contexts. While Serbia's elites adopted a *paternalistic* approach towards social policy, characterized by provision of basic social security for social order preservation, Macedonia's elites embraced the *neoliberal* trend of liberalization, retrenchment and privatization, which brings us to the next important variable influencing the welfare outcome.

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 a dispersing ‘neoliberal’ trend. 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 Washington Consensus. Many of the reforms in Croatia, Macedonia and Slovenia were already initiated during the 1990s, and were negotiated between the international actors and the governing elites. Serbia was internationally isolated then, but also after 2000 showed restrained inclination towards the international agents’ agenda. The reform effects on the institutional framework became more visible in the second transitional decade when also reform efforts intensified. However, the concrete shape that welfare reforms took in the different countries has to take into consideration the other intersecting variables, like the level of economic dependence and the deliberation of domestic interests.

The European Union, to which the countries of the region aspired, did little to counter the International Financial Institutions, although it has had a qualitatively different attitude towards social affairs. Its limited competences in this area, as well as the primacy of negative integration, prevented it from making a unique contribution to the development of the countries’ welfare policies. Some effects could nevertheless be observed. Slovenia was the first to join the European Union in 2004 and adopt the Euro in 2007. Croatia finished EU accession negotiations in 2011 and in 2013 became the 28th member state. Macedonia gained EU candidate status in 2005 but has not started accession negotiations. Serbia received this status in 2012 and awaits start of accession talks. The policy transfer from the European Union helped introduce innovative policy strategies in the Slovenian welfare system. In Croatia, the EU accession process extended beyond concrete policy content and added value to the process of policy-making, which helped strengthen the social dimension of the Croatian welfare system. In Macedonia and Serbia, the EU failed to make a distinct influence in the area of welfare, mainly because of the focus on other issues (the name issue and the status of Kosovo) which slowed down the pace of EU approximation.

7.4 Summary of Findings

Having outlined the main independent variables influencing the way that the welfare systems unfolded, namely the initial conditions, the economic development and transformation, the political transformation and the international exchanges, I briefly summarize the main assumptions. The inherited differences between the former republics, expressed through the different levels of economic development and the national elites' choices at the onset of the secession survived and were reflected in the different welfare outcomes twenty years on. Furthermore, economic prosperity and democratic consolidation have proven conducive to the preservation of the existing welfare structures. Democratic consolidation has increased the possibility for active political participation and democratic control of governments' actions. Thereby, ruling parties' identification on the left-right spectrum has been less informative. When the need for reform has been on the agenda it has allowed room for dispersion of ideas across borders. The International Financial Institutions' proposals suggesting less state involvement in the organization and provision of social security found fertile ground in economically less viable, financially dependable and democratically defective systems. The process of European integration has also increased the likelihood of international exchanges, in this case incorporating a social dimension. Its role has, however, been rather uneven.

When communism started failing the now former communist states developed diverse strategies for addressing 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 extended the application of the existing 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 would need to look like, the political elites tended to embrace this agenda. Interestingly, the internationally driven liberalization did not necessarily contribute to pulling the state out of economic matters, but

provided a fitting argument for elites to adjust the rules of the game to their own interests. The move from a socialist- to a market economy was not essentially facilitative of free economic competition, but was reduced to a new resource redistribution strategy: away from the public good and into the hands of narrow elites. What the analyzed country cases suggest is that where democratic processes and institutions have been stronger, reforms have been more responsive to public concerns. On the other hand, defective systems have impeded economic development and compromised the welfare state's redistributive role. Evidence has demonstrated that economic liberalization is not inextricably linked to economic development, but production and distribution of wealth contains a political component.

Table 37 Summary of findings

	Slovenia	Croatia	Serbia	Macedonia
Variables	favorable initial conditions; strong economic base; solid democratic consolidation; weak external influence	favorable initial conditions; moderate economic base; moderate democratic consolidation; strong external influence	semi-favorable initial conditions; weak economic base; defective democratization; moderate external influence	unfavorable initial conditions; weak economic base; defective democratization; strong external influence
Policy-making Approach	Neo-corporatist	Accommodating	Paternalistic	Neo-liberal
Welfare Outcome	Mixed conservative (Bismarckian) and social-democratic (Beveridgean) system	Mixed Bismarckian/Beveridgean system with some liberal elements	Predominantly conservative system	Liberal (residual) system with some conservative remnants

The global economic crisis has brought the systems' inherent shortcomings to the surface. In the light of such situations, different reactions can be expected. Democratic regimes would find it

hard to circumvent interest groups and public discontent when taking decisions, while populist policies and state capture in defective regimes may prove to be risky for the welfare structures. On the other hand, global pressures drew attention to the magnitude of international economic interdependencies and thus called for internationally negotiated political responses. As a result, the national playing field and the possibility for isolated decision-making on welfare policies have been restricted, regardless of the regime. Higher degree of policy convergence among countries could be a likely future scenario, whose direction would depend on the outcome of internationally competing ideas.

8 Notes

¹ Social insurance against sickness (introduced in 1883), accident (1884), and old-age and invalidity insurance (1889) (Kaufmann 2003: 270).

² Refers mainly to the USA, which has either been disputed as a welfare state (cf. Veit-Wilson 2000; Kaufmann 2003; Wincott 2003) or at best considered “exceptional” (Pierson and Leimgruber 2010: 38). In defense of the argumentation, critical voices against the Keynesian form of the welfare state, which grew louder during the 1970s, arose and spread precisely from the Anglosphere.

³ The term *Wohlfahrtsstaat* is also in use in Germany, which etymologically stands closer to ‘welfare state’ than *Sozialstaat*, however historically the term has not always found similar acceptance as *Sozialstaat* and has not been associated with the same attributes, definition-wise (cf. Veit-Wilson 2000: 10). The case clearly demonstrates how terminology can create confusion even within the same language.

⁴ See Art. 22 and Art. 25 (1).

⁵ According to Huntington’s observation of democratic transitions (Huntington 1991). Recent events across the Arab world have possibly announced the start of a fourth wave (cf. Diamond 2011).

⁶ Leibfried and Mau (2008) point to the autocratic German state under Bismarck, the racist and war-flanking welfare state under Fascism and Nazism, the more encompassing welfare aims of the state under Communist regimes and the developmental authoritarianism of East-Asian kind.

⁷ I will use the term to refer to the countries from Central Eastern Europe, South Eastern Europe, as well as the former Soviet Union.

⁸ I use the following definition of welfare effort: ‘elite decisions regarding the allocation of scarce resources’, given in (Wilensky et al. 1985: 5).

⁹ For instance, Baldwin (1990) has pointed to the influence of the ‘middle classes’ in the determining of welfare policies. Also Marshall hinted at the “rise of money incomes” which “blurred the class distinction” (2008 [1949]: 114).

¹⁰ According to Lijphart’s study (1999) democracies can be placed within this two-dimensional pattern. Concentration of power is typical of majoritarian models, whereas consensual models are power-sharing. The five main differences between the two regimes on the, what Lijphart calls, *executive-parties dimension* are single-party majority cabinets, dominant executive, two-party system, majoritarian electoral system, and pluralist interest group system (majoritarian model), versus multiparty coalitions, executive-legislative balance of power, multiparty system, proportional electoral system, and corporatist interest group system (consensual model) (Lijphart 1999: 3). Moreover, there’s a difference between unitary and federally organized states.

¹¹ While some find that power-sharing models exhibit greater “kindness and gentleness of their public policy orientations” (Lijphart 1999: 301), others have observed that politically fragmented systems may disallow the building of comprehensive welfare (Immergut 1992).

¹² Other nuances of the argument use the terms like ‘policy feedback’, ‘self-reinforcing effects’, and ‘increasing returns’.

¹³ For an elaborate discussion on the arguments see King and Ross 2010.

¹⁴ The term ‘workfare’ is originally associated with the 1996 welfare reform bill passed in the USA.

¹⁵ In the international context, ‘learning’ refers to the possibility of countries to use other countries’ experiences and draw lessons from their policy successes and failures. Global ‘competition’ urges countries to use their social policies as a tool for securing competitive economic advantage. ‘Emulation’ facilitates policy exchange, related to countries’ ambition to belong to the international community. Finally, ‘coercion’ denotes the international community’s ability to impose social policy solutions.

¹⁶ Such are for instance standards in working conditions, gender equality and anti-discrimination, worker information and consultation, integration of persons excluded from the labor market, social security and worker protection, protection of workers when employment contract is terminated, collective interest representation, employment of third country nationals (cf. Leibfried 2010: 258-62).

¹⁷ ‘Washington Consensus’ is a term coined by Williamson (1990) which summarizes the ten policy instruments that the US government and the international financial institutions based in Washington agreed on to tackle the Latin American debt crisis of the 1980s. Over time the ‘Washington Consensus’ has become the synonym for development policies of price stabilization, liberalization and privatization, reliant on the neo-liberal concept of free markets and minimal states.

¹⁸ The ‘Post-Washington Consensus’ (Stiglitz 1998) is a corrected version of the ‘Washington Consensus’ instruments. It proposes abandonment absolute market fundamentalism and has a friendlier attitude towards the role of government. During the 1990s the IFIs supplemented their development agenda with the requirement of ‘good governance’, whose market-enhancing approach has nevertheless been found to underpin the triumph of neoliberalism (UNRISD 2010: 275).

¹⁹ The Maastricht Treaty (Treaty on the European Union) (1992) stipulates the criteria that the member states should fulfill in order to introduce the Euro as a currency. The criteria impose restrictions on the levels of price stability, government deficit and government debt, exchange rates and long-term interest rates. Countries that have received EU bailout so far have been Greece, Ireland, Portugal, Spain and Cyprus, however, the list may not be exhaustive (cf. Deutsche Welle 2012; The Telegraph 2013).

²⁰ Italy is also classified within this cluster, albeit in Esping-Andersen’s methodology it belongs to the conservative camp.

²¹ According to Bohle and Greskovits (2007) the other key component has been the role of various international and transnational influences, in particular the EU and various transnational corporations.

²² Estonia, Latvia and Lithuania.

²³ Poland, Czech Republic, Slovakia and Hungary.

²⁴ Müller (2001) also points that the degree of external debt of a country has increased the leverage of its Ministry of Finance and the World Bank. At this point I refer to the domestic structures. The influence of the international organizations comes forward later in the text.

²⁵ 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.

²⁶ Tavits and Letki (2009) also point to the membership loyalty and weak fragmentation of the Left that helped leftist parties maintain voters' support.

²⁷ Consolidated Version of the Treaty on European Union, Official Journal of the European Union C 83/15.

²⁸ Bohle and Greskovits (2012) examine Bulgaria, Romania and Croatia.

²⁹ The book considers the former Yugoslav states (except Montenegro and including Kosovo), Bulgaria, Romania, Albania and Turkey.

³⁰ Cerami and Stubbs (2011) include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania and Serbia.

³¹ Out of the former Yugoslav republics, it was also the only EU member state until recently. In July 2013 Croatia was admitted to the EU.

³² It's nevertheless worth mentioning that while the center-right government's reform proposals have been part of their policy agenda, the center-left government's proposals for reform have been closely related to the looming crisis and fiscal pressures.

³³ The status of Kosovo and the cooperation with The Hague tribunal (see chapter Serbia for details).

³⁴ Serbia gained EU candidate status in 2012 upon delivery of the last war suspects to the Hague and series of concessions on Kosovo.

³⁵ The Macedonia-Greece name dispute which has caused a series of events with negative repercussions for Macedonia – for instance Macedonia was granted EU candidate status in 2005, but there has been an impasse in the start of accession negotiations (see chapter Macedonia for details).

³⁶ Serbia and Montenegro became part of the Federal Republic of Yugoslavia in 1992 which existed until 2003 when the State Union of Serbia and Montenegro was founded. In 2006 Montenegro and Serbia finally became independent sovereign states. It should be mentioned that Kosovo was an autonomous province within the former socialist Republic of Serbia. Since 1999 it has been under UN administration and in 2008 it proclaimed independence.

³⁷ With the exception of members of the German and Hungarian minority (Jelavich 1983b:150).

³⁸ Another source estimates a number of 647.000 workers in compulsory state insurance schemes for the year 1939 (Singleton and Carter 1982: 72). Differences aside, the number of insured had remarkably increased since the founding of the Kingdom.

³⁹ Tito is short for Josip Broz Tito, who was the leader of the Yugoslav partisan resistance movement during the Second World War, Secretary General and later President of the Communist Party of Yugoslavia, Prime Minister and later President of the Socialist Federal Republic of Yugoslavia, as well as Commander in chief of the Yugoslav People's Army until his death in 1980.

⁴⁰ Cominform is short for Communist Information Bureau, a network of European communist parties, founded at the initiative of Stalin, the leader of the communist party of the Soviet Union in 1947. The Communist party of Yugoslavia was expelled from the Cominform following its 1948 Resolution on the State of Affairs in the Communist Party of Yugoslavia.

⁴¹ People's liberation committees (Narodno oslobodilački odbori) were elected directly by the people in the liberated territories (women and youth also had voting rights). They exercised various competences, from organizing the support for the partisan movement, maintaining order and preventing criminal activity to providing food and taking special care for the poor (Kartov 1991: 514).

⁴² Constitutional law on the Basis of Social and Political Organization of the Federative People's Republic of Yugoslavia and Federal Bodies of Power, 13th January, 1953 (Official Gazette of FPRY No.3/1953).

⁴³ The constitutional law from 1953 abolished the Presidium and the Government, established by the constitution of 1946. The executive function was then divided between political-executive bodies (the Federal Executive Council and the President) and the administrative-executive bodies (the federal administrative organs).

⁴⁴ Official Gazette of SFRY No.18/1967 and No.55/1968.

⁴⁵ Official Gazette of SFRY No.29/1971. The autonomous provinces established within Serbia: Vojvodina and Kosovo, were raised in status.

⁴⁶ The National Income and the Social Product were the basic measures of the country's economic output. They refer to the Nett and Gross value of the Domestic Product.

⁴⁷ The right to strike was for the first time introduced in 1977 by the Amendment XXVIII to the Constitution of SFRY.

⁴⁸ Law on Associated Labor (Official Gazette of SFRY No.53/1976).

⁴⁹ The terminology used to describe private consumption and public expenditure in Yugoslavia was different and came from the Marxist terminology: personal consumption and general and common expenditure. According to Šefer (1979), the difference between the general and common expenditure and the public expenditure is in the way it is organized: while in capitalist societies this is done primarily by state, in the socialist societies the covering of general and common needs is socially organized (self-managed).

⁵⁰ Official Gazette of SFRY No.14/1963.

⁵¹ Official Gazette of SFRY No.9/1974.

⁵² "The Self-management Interest Communities were a special form of organization and association of the working people, directly or indirectly through their organizations or communities, for the purpose of meeting their personal and common interests and needs [...]" (1974 Constitution of SFRY, Article 51). The Self-management Interest Communities had an especially important role in organizing and managing certain social policy areas, such as education, culture, health-care, pension and disability insurance, and social protection.

⁵³ The Gini coefficient is a commonly used measure of inequality of income or wealth. It is number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income, and everyone else has zero income). The Gini coefficient was not measured by the official Yugoslav statistics. This data is obtained as a result of a research project conducted by a research team, headed by Dr. Miladin Korać (quoted in Šefer 1974).

⁵⁴ Law on social insurance of workers, employees and civil servants (Official Gazette of FPRY No.65/1946).

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- ⁵⁵ Law on social insurance of workers, employees and civil servants (Official Gazette of FPRY No.10/1950).
- ⁵⁶ Regulation on founding institutes for social insurance and on temporary management of the funds of social insurance (official of FPRY nr.30/1952).
- ⁵⁷ Regulation on the social insurance contribution rate (Official Gazette of FPRY No.18/1952).
- ⁵⁸ Law on the organization and financing of the social insurance (Official Gazette of SFRY No.22/1962).
- ⁵⁹ Law on the basic rights from pension and disability insurance (Official Gazette of SFRY No.35/1972).
- ⁶⁰ Law on the basic rights from pension and disability insurance (Official Gazette of SFRY No.23/1982).
- ⁶¹ In 1985 the maximum pension base was: 98.808 dinars in Croatia, 86.062 dinars in Slovenia, 84.612 in Bosnia and Herzegovina, 81.863 in Serbia (without the provinces), 81.781 in Vojvodina, 73.476 in Montenegro, 67.670 in Kosovo and 61.140 in Macedonia (Gojković 1985: 104).
- ⁶² General law on health insurance and obligatory types of health protection of the population (Official Gazette of SFRY No.20/1969).
- ⁶³ The youth branch of the Slovenian League of Communists “became a forum in which alternative ideas could be expressed” (Fink-Hafner and Ramet 2006: 31). The arrest and trial of one writer, two editors of the youth organization’s magazine ‘Mladina’, one of which – Janez Janša who later became prime minister of Slovenia, and a member of the Yugoslav National Army, due to publishing classified documents which exposed an army plan to interfere in Slovenian domestic politics and halt the liberalization process, triggered massive mobilization in Slovenian society.
- ⁶⁴ The Serbian positions were backed by the Montenegrin leadership. A third proposal drafted in July 1990 by the Macedonian and Bosnian presidents, Gligorov and Izetbegović, envisaging a platform for a loose Yugoslav federation (Gligorov 2002: 262-74) proved belated and remained fruitless.
- ⁶⁵ In 2009 the debt worsened due to the global crisis which caused economic contraction. One year before that the public debt was at a value of 22,5% of GDP.
- ⁶⁶ Own calculation based on the absolute values of total insured persons (889.891) and beneficiaries (538.455) in the year 2009 (ZPIZ 2010: 7,13).
- ⁶⁷ Pension and Invalidity Insurance Act (integrated text) (Official Gazette of the Republic Slovenia 109/06).
- ⁶⁸ The calculation excludes the other benefits (cash benefits under the disability insurance, supplementary allowances and other).
- ⁶⁹ Law amending the Health Care and Health Insurance Act (Official Gazette of the Republic Slovenia 76/05).
- ⁷⁰ According to the DRG form of payment, medical services are grouped and given a certain price. Remuneration depends on the group a certain medical case belongs to. The first diagnosis-related groups were developed at Yale University in the early seventies (American Health Information Management Association 2010).
- ⁷¹ Law on Social Security Contributions (Official Gazette of the Republic Slovenia 5/96).

⁷² See integrated text of the law, incorporating all previous amendments, Official Gazette of the Republic Slovenia 107/06. New Labor Market Regulation Act was enacted in 2010 (Official Gazette of the Republic Slovenia 80/10).

⁷³ Official Gazette of the Republic Slovenia 3/07, official consolidated text.

⁷⁴ Official Gazette of the Republic Slovenia 62/10, 40/11.

⁷⁵ Official Gazette of the Republic Slovenia 61/10.

⁷⁶ The Slovenian People's Party (Slovenska Ljudska Stranka, SLS), which was part of the 1997-2000 Drnovšek government, after merging with the Christian Democrats into a new party (SLS+SKD), left the government. The changed dominant political constellation made way for a new government under the leadership of Andrej Bajuk (Annex II).

⁷⁷ In fact, two of the most prominent ideologists of the Yugoslav Communists, Boris Kidrič and Edvard Kardelj, were of Slovenian origin.

⁷⁸ 66,% of the voters were in favor of Slovenia's accession to NATO (European Commission 2004).

⁷⁹ Apart from the three mentioned ones, one more referendum held in 2010 rejected the new law on the public broadcasting service, which "was an expression of the continuous party struggle over the control of the national public radio and television station" (Fink-Hafner 2011: 1133).

⁸⁰ 'Shock therapy' is a term associated with Jeffrey Sachs, a lead advisor on economic liberalization in the aftermath of communism, who also became involved in Slovenia. It should be noted that Sachs later explained that he was an advocate for end of price controls and contested being an advocate of shock therapy in its neoliberal sense and the complete dismantling of government intervention in the economy (Sachs 2012).

⁸¹ General government spending as percentage of GDP (EBRD 2010a)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
41,1	44,1	45,5	44,9	54	45,6	46,1	46,9	46,5	46,7	47,6	46,3	46,4	45,8

⁸² The 'White Paper on the Reform of Pension and Disability Insurance' prepared by a working group in the Ministry of Labour, Family and Social Affairs and published in 1997 was inspired by a IMF report from 1995 containing proposals for restructuring of the pension system (Stanovnik 2002).

⁸³ Referring to a large demonstration held in 1998, which was qualified as largest since Slovenian independence (Stanovnik 2002: 61).

⁸⁴ As a result, the signing of a loan arrangement with the World Bank for the support of the reform was cancelled.

⁸⁵ The mid-term evaluation of the process started in Lisbon in 2000 aimed at making the EU the most dynamic and competitive knowledge-based economy in the world by 2010, provided a new impetus for the objectives set in the Lisbon Strategy.

⁸⁶ Law amending the Employment and Insurance Against Unemployment Act (Official Gazette of the Republic Slovenia 79/06) and Law amending the Employment Relationships Act (Official Gazette of the Republic Slovenia 103/07).

⁸⁷ Indeed, between 2005 and 2008 general government spending as percentage of GDP decreased (EBRD 2010a)

2005	2006	2007	2008	2009
45,2	44,5	42,4	44,7	49

⁸⁸ For instance, during the interviews I was told that the bankruptcies revealed that some companies have been withholding payment of social security contributions for their workers for years (Kopač-Mrak, Černak-Meglič, interview). In other cases, managers had been transferring employees to new companies, registered after the old one had entered bankruptcy, in order to avoid paying full amount of severance payments (Lukić, interview).

⁸⁹ The oldest and largest trade union confederation is the Association of Free Trade Unions of Slovenia (*Zveza svobodnih sindikatov Slovenije - ZSSS*). Other important umbrella organizations, that are also members of the Economic and Social Council are: Confederation of Public Sector Trade Unions (*Konfederacija sindikatov javnega sektorja Slovenije - KSJS*), Confederation of Trade Unions of Slovenia Pergam (*Konfederacija sindikatov Pergam Slovenije - Pergam*), Confederation of Trade Unions '90 of Slovenia (*Konfederacija sindikatov '90 Slovenije – Konfederacija '90*), Independence, Confederation of New Trade Unions of Slovenia (*Neodvisnost, Konfederacija novih sindikatov Slovenije – KNSS*), Association of Workers' Trade Unions of Slovenia – Solidarity (*Zveza delavskih sindikatov Slovenije – Solidarnost*) and Slovene Association of Trade Unions Alternativa (*Slovenska zveza sindikatov Alternativa – SZS Alternativa*) (Eurofound 2013).

⁹⁰ For instance, the newly founded KNSS became close to the new, right-wing parties and refused to support the ZSSS initiated strike against the Demos government's wage policy (Guardiancich 2009; Grdešić 2006).

⁹¹ For instance, on 10th May 2012, the new government and the public sector trade unions signed an agreement on austerity measures (Eurofound 2013).

⁹² In 1991 78,1% of the population were ethnic Croats, and in 2001 their proportion in the population had increased to 89,6% (Zakošek and Maršić 2010: 775). The 2011 census registered 90,4% ethnic Croats (Croatian Bureau of Statistics 2012) suggesting very limited and unsustainable return of Serbs, who mainly return "to sell their property and the migrate again" (Belorgey et al. 2012: 111).

⁹³ Refers to the International Criminal Tribunal for the former Yugoslavia which was established as an *ad hoc* court by the Security Council of the United Nations in 1993, in response to the atrocities committed during the wars in Croatia and Bosnia and Herzegovina. Subsequently the tribunal tried cases for war crimes committed between 1991 and 2001 in Croatia, Bosnia and Herzegovina, Serbia, Kosovo and Macedonia. Following the delivery of the final war crime suspects by Serbia (2011), the tribunal has been working towards the completion of its mandate.

⁹⁴ Comparatively, the average value on social spending in the EU 27 from 2000-2008 was 26.67% (Stambolieva 2011a: 353).

⁹⁵ The data should be interpreted with care, compare other values provided by Bodiroga-Vukobrat (2011: 12), according to which average spending on pensions 1995-2009 was 10,5%.

⁹⁶ Law on Pension Insurance (integrated text) (Official Gazette of the Republic of Croatia 130/10).

⁹⁷ Law on Contributions from Mandatory Insurance (Official Gazette of the Republic of Croatia 147/02).

⁹⁸ Purchase of missing insurance periods and extended insurance are regulated by the Pension Insurance Act, while privileged insurance is part of specific regulations (cf. HZMO 2012).

⁹⁹ Law on Pension Insurance (Official Gazette of the Republic of Croatia 102/98).

¹⁰⁰ Law amending the Law on Pension Insurance (Official Gazette of the Republic of Croatia 121/10).

¹⁰¹ Law on Reduction of Pensions Acquired under Special Regulations on Pension Insurance (Official Gazette of the Republic of Croatia 71/10).

¹⁰² In 2010 a temporary moratorium on pension adjustment based on the Swiss formula (50-50 wage-price indexation) was put in place as a kind of austerity measure and continued to apply throughout 2011 (Bodiroga-Vukobrat 2011: 8).

¹⁰³ Law on Transfer of Funds from the Central Budget to the Funds of Pension and Disability Insurance (Official Gazette of the Republic of Croatia 102/98); Law on Increase of Pensions for the purpose of Eliminating Differences in Pensions Acquired in Different Periods (Official Gazette of the Republic of Croatia 127/00).

¹⁰⁴ Law on Supplement on Pensions Acquired under the Law on Pension Insurance (Official Gazette of the Republic of Croatia 79/07).

¹⁰⁵ Law amending the Law on Supplement on Pensions Acquired under the Law on Pension Insurance (Official Gazette of the Republic of Croatia 114/11).

¹⁰⁶ Law amending the Mandatory and Voluntary Pension Funds Act and Law amending the Law on Pension Insurance Companies and Benefit Payments Based on Individual Fully-Funded Retirement Savings (Official Gazette of the Republic of Croatia 114/11).

¹⁰⁷ Law amending the Law on Pension Insurance (Official Gazette of the Republic of Croatia 147/02).

¹⁰⁸ Law amending the Law on Pension Insurance (Official Gazette of the Republic of Croatia 79/07).

¹⁰⁹ Regulated in a separate Law on Maximum Pension (Official Gazette of the Republic of Croatia 162/98) and Law amending the Law on Maximum Pension (Official Gazette of the Republic of Croatia 82/01).

¹¹⁰ Law on Pension Insurance (integrated text) (Official Gazette of the Republic of Croatia 130/10).

¹¹¹ Mandatory and Voluntary Pension Funds Act (Official Gazette of the Republic of Croatia 49/99) and Law on Pension Insurance Companies and Benefit Payments Based on Individual Fully-Funded Retirement Savings (Official Gazette of the Republic of Croatia 106/99, 63/00).

¹¹² Ministry of Family, Defendants and Intergenerational Solidarity, which was abolished in 2011 (cf. Official Gazette of the Republic of Croatia 150/11).

¹¹³ Law on Voluntary Health Insurance (Official Gazette of the Republic of Croatia 85/06).

¹¹⁴ Law on Mandatory Health Insurance (Official Gazette of the Republic of Croatia 150/08), and its amendments in Official Gazette of the Republic of Croatia 94/09, 153/09, 71/10, 139/10, 49/11.

¹¹⁵ Law on Mandatory Health Insurance (Official Gazette of the Republic of Croatia 150/08), and its amendments in Official Gazette of the Republic of Croatia 94/09, 153/09, 71/10, 139/10, 49/11; Maternity and Paternal Benefits Law (Official Gazette of the Republic of Croatia 85/08).

¹¹⁶ Laws amending the Law on Voluntary Health Insurance (Official Gazette of the Republic of Croatia 150/08, 71/10).

¹¹⁷ The physicians receive funds from the CIHI based on the number of patients they have registered (per capita).

¹¹⁸ The unemployed are all persons above a specified age, who are without work, currently available for work and seeking work (ILO 2011). Thus, for example, people who are in paid work, as part of the informal economy, or who perform unpaid household work and are not actively seeking a job may register with the Employment Institute in order to gain access to some social benefits.

¹¹⁹ Law on Employment Mediation and Entitlements during Unemployment (Official Gazette of the Republic of Croatia 80/08).

¹²⁰ See the Employment Act and its amendments (Official Gazette of the Republic of Croatia 59/96, 82/01, 114/01), Law on Employment Mediation and Entitlements during Unemployment and its amendments (Official Gazette of the Republic of Croatia 32/02, 86/02, 114/03, 151/03) and Law on Employment Mediation and Entitlements during Unemployment and its amendment (Official Gazette of the Republic of Croatia 80/08, 121/10).

¹²¹ Absolute poverty lines are anchored in some absolute standard of what households should be able to count on in order to meet their basic needs.

¹²² The relative poverty line is defined in relation to the overall distribution of income in a country. The at-risk-of-poverty threshold is fixed at 60% of the national median equivalent income. The Laeken indicators are a set of 18 common statistical indicators for social inclusion adopted at the European Council in December 2001 (Dennis and Guio 2003).

¹²³ Official Gazette of the Republic of Croatia 73/97, 27/01, 59/01, 82/01, 103/03, 44/06, 79/07, 123/10.

¹²⁴ The data on expenditure and benefits is retrieved from various annual financial reports of the Ministry of Health and Social Care of Croatia (MZSS 2011a). The data on the web-site is available only from 2001 and it should be noted that it slightly diverges from the data provided in Pujliz et al. 2008. In the absence of access to other sources for the period 1992-2001 I quote Puljiz et al. 2008.

¹²⁵ Law on Child Benefit (Official Gazette of the Republic of Croatia 94/01, 138/06, 107/07, 61/11).

¹²⁶ This was the term usually used for the Serbo-Croatian war (*Domovinski rat*).

¹²⁷ After Tudjman's death Stjepan Mesić was elected Croatia's president at the 2000 presidential elections.

¹²⁸ Ante Gotovina was arrested shortly thereafter by the Spanish police in the Canary Islands.

¹²⁹ The reasons for Sanader's abrupt resignation from the post of Prime Minister, as well as President of the party, have remained unclear. Sanader himself pointed to "personal reasons" (Dnevnik 2009b [my translation]). However, few months later he was ready to throw this, as he put it "well thought through" (Dnevnik 2009b [my translation]) decision, overboard and announced his comeback into politics, which some associated with his intention to "warn Kosor to stop the investigations which implicate him in criminal doings" (Jelić and Milković 2009 [my translation]).

¹³⁰ In 1999 the level of government spending amounted around 50 percent of Croatia's GDP (EBRD 2010a).

¹³¹ Ugovor za Pravednu Hrvatsku (Contract for Just Croatia).

¹³² Decision U-VIIR-4696/2010 (Official Gazette of the Republic of Croatia 119/10).

¹³³ On his last press conference, the Minister of Health and Social Affairs, Milinović, proclaimed that „the total due debt was reduced from 4.6 billion to 1.7 billion kuna, and the debt of the CIHI from 205 to 17 million“ (Dnevnik 2011).

¹³⁴ Official Gazette of the Republic of Croatia 57/2011.

¹³⁵ JAP - Joint Assessment of the Employment Policy Priorities of the Republic of Croatia (signed in 2008) and JIM – Joint Memorandum on Social Inclusion of the Republic of Croatia (signed in 2007) are bilateral agreements between the EU and Croatia aimed at preparing Croatia for participation in the open method of coordination in line with the Lisbon strategic goals in the area of employment and social inclusion.

¹³⁶ The biggest and oldest trade union confederation is The Union of Autonomous Trade Unions of Croatia (*Savez Samostalnih Sindikata Hrvatske - SSSH*). Other umbrella organizations are: The Croatian Union of Trade Unions (*Hrvatska Udruga Sindikata – HUS*) (1990), The Council of Croatian Trade Unions of Public Workers (*Matica Sindikata Javnih Poduzeća – Matica*) (1993), The Association of Workers Trade Unions of Croatia (*Udruga Radničkih Sindikata - URHS*) (1994) and The Independent Croatian Trade Unions (*Nezavisni Hrvatski Sindikati – NHS*) (1999) (Calvo et al. 2008: 119).

¹³⁷ "Union density is 40,5%, compared with 60-70% ten years ago" (Calvo et al. 2008: 119).

¹³⁸ The other province was Vojvodina.

¹³⁹ At that time it has been the second highest recorded rate of inflation, after the Hungarian hyperinflation of 1945-6, nowadays rating third after Zimbabwe's hyperinflation in 2008. With its 24 months duration it has been the second longest recorded inflation, after the Russian one in the 1920s, which lasted 26 months (Uvalic 2010: 56).

¹⁴⁰ Law on Contributions for Mandatory Social Insurance (Official Gazette of the Republic of Serbia 84/04).

¹⁴¹ Law on Pension and Disability Insurance (integrated text) (Official Gazette of the Republic of Serbia 34/03, 64/04, 84/04, 85/05, 101/05, 63/06, 5/09, 107/09, 101/10).

¹⁴² Official Gazette of the Republic of Serbia 101/10.

¹⁴³ Until 2008 the replacement rates correspond to the data given in Vuković 2009: 102. The replacement rate, according to Vuković (2009) in 2008 was 59%, whereas according to Stanić (2010) was 65%. The difference in data after this year may be attributed to a change in wage statistics methodology.

¹⁴⁴ A study by Holzmann (2008) points to the same trend and replacement rate drop, though offers a later date for the disappearance of the deficit - by 2050.

¹⁴⁵ Law on Health Insurance (integrated text) (Official Gazette of the Republic of Serbia 107/05, 109/05, 57/11).

¹⁴⁶ Law on Contributions for Mandatory Social Insurance (Official Gazette of the Republic of Serbia 84/04).

¹⁴⁷ Law on Employment and Unemployment Insurance (Official Gazette of the Republic of Serbia 36/09).

¹⁴⁸ Compare with the Law on Employment and Unemployment Insurance (Official Gazette of the Republic of Serbia 71/03).

¹⁴⁹ The 2001 Labor Law (Official Gazette of the Republic of Serbia 70/01) introduced new types of employment contracts.

¹⁵⁰ In 2002 a Social Program was launched, also establishing a transitional fund, providing mainly severance payment and other benefits for workers who have lost their jobs in the privatization and restructuring process since 2001. "Huge funds of almost 300 million Euros were cumulatively spent on payments of stimulative severances for around 150.000 workers in the period from 2002 to 2007, which on average accounts for around 0,4% of GDP a year" (Mijatović 2008: 77).

¹⁵¹ In January 2007 average gross wage was 33.770 dinars (24.122 net) and in January 2012 - 50.829 dinars (36.639 net) (Statistical Office of the Republic of Serbia 2012).

¹⁵² Serbia's refugee population has been the biggest in the region. In 1996, Serbia hosted 621.300 refugees and in 2012 – 66.408. The number of internally displaced persons has been as follows: 187.129 (2000) and 209.112 (2012) (KIRS 2013). Significant numbers of the refugees have returned to Croatia and Bosnia and Herzegovina, but over 200.000 have taken Serbian citizenship and around 50.000 have emigrated (Belorgey et al. 2012: 112).

¹⁵³ Classification based on Law on Social Care and Social Security Provision (Official Gazette of the Republic of Serbia 36/91, 79/91, 33/93, 53/93, 67/93, 46/94, 48/94, 52/96, 29/01, 84/04, 101/05, 115/05) and Law on Social Care (Official Gazette of the Republic of Serbia 24/11).

¹⁵⁴ In 2010 spending on family allowance reached 0,15% of GDP (Vlada Republike Srbije 2011: 151).

¹⁵⁵ Law on Financial Support to Families with Children (Official Gazette of the Republic of Serbia 16/02, 115/05). Beside child benefit, the law stipulates other benefits as well: parental allowance, compensation of pre-school attendance costs for children without parental care, children with developmental difficulties and reimbursement of pre-school attendance costs for children from financially vulnerable families.

¹⁵⁶ The poverty line for 2007 was estimated 8.883 dinars per month, per adult; the food poverty line was 4.138 dinars (Statistical Office of the Republic of Serbia 2008: 178, 177).

¹⁵⁷ Several parties: LSV, LDP, GSS, SDU and some civic organizations opposed the Constitution to begin with (ICG 2006b: 7).

¹⁵⁸ Labor Law (Official Gazette 70/01).

¹⁵⁹ Bankruptcy Law (Official Gazette of the Republic of Serbia 84/04, 85/05).

¹⁶⁰ General government spending as percentage of GDP (EBRD 2010a)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
37,4	40,7	45,1	42,8	41,6	41,9	45,4	44,3	44,6	43,6

¹⁶¹ Tomislav Nikolić is the president of SNS.

¹⁶² Two trade union confederations are represented in the Socio-Economic Council - The Confederation of Autonomous Trade Unions of Serbia (*Savez samostalnih sindikata Srbije - SSSS*) and the United Branch Trade Unions “Independence” (*Ujedinjeni granski sindikati “Nezavisnost” – UGSN*). There is one employers’ organization: Serbian Association of Employers (*Unija poslodavaca Srbije*).

¹⁶³ For instance 75% of respondents agree fully or mostly with the following statement: “The government should satisfy citizens’ basic needs in case of illness, poverty and unemployment”; 73% of respondents agree fully or mostly with the following statement: “The state should be concerned about job creation, retraining and help of the unemployed” (Ružica 2010: 38-9 [my translation]).

¹⁶⁴ There was a turn out rate of 71,85% of the electorate, out of which 95,05% supported the referendum for independence (Gligorov 2002: 207).

¹⁶⁵ According to the 1991 population census there were 65,3% Macedonians and 21,7% Albanians in the Republic of Macedonia, and according to the 2002 census this proportion was 64,2% Macedonians and 25,2% Albanians (Töpfer 2012: 269).

¹⁶⁶ Law on Mandatory Social Insurance Contributions (Official Gazette of the Republic of Macedonia 142/08).

¹⁶⁷ The contribution rate for 2010 was raised from 16,5 to 18% (Official Gazette of the Republic of Macedonia 156/09), then the rate of 15% which was planned to start implementation from 2011 was raised to 17% (Official Gazette of the Republic of Macedonia 166/10) and finally it was set at 17,5%, with the exceptions of 2012 and 2013 for which years it was kept at 18% and of 2014 for which a rate of 17,6% was envisaged (Official Gazette of the Republic of Macedonia 185/11).

¹⁶⁸ Law on Pension and Disability insurance (Official Gazette of the Republic of Macedonia 80/93, 3/94, 14/95, 71/96, 32/97, 24/00, 96/2000, 50/2001, 85/2003, 50/2004, 4/2005, 84/05, 101/05, 70/06, 153/07, 152/08, 161/08, 81/2009, 156/2009, 83/10, 156/10, 24/11).

¹⁶⁹ Upon amendments to the Law (Official Gazette of the Republic of Macedonia 81/09), between 01.07-31.12.2009, 50-20% price-wage indexation was in force.

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- ¹⁷⁰ The reform was announced in the amendments to the Pension and Disability Insurance Act from 2000 (Official Gazette of the Republic of Macedonia 24/00), the first Law on Mandatory Fully Funded Pension Insurance was adopted in 2002 (Official Gazette of the Republic of Macedonia 29/02).
- ¹⁷¹ Law on Voluntary Fully Funded Pension Insurance (Official Gazette of the Republic of Macedonia 7/08, 124/10, 17/11).
- ¹⁷² Amendment to the Law on Mandatory Fully Funded Pension Insurance (Official Gazette of the Republic of Macedonia 88/08).
- ¹⁷³ Law on Mandatory Social Insurance Contributions (Official Gazette of the Republic of Macedonia 142/08).
- ¹⁷⁴ Law amending the Law on Mandatory Social Insurance Contributions (Official Gazette of the Republic of Macedonia 156/09).
- ¹⁷⁵ Law amending the Law on Mandatory Social Insurance Contributions (Official Gazette of the Republic of Macedonia 166/10).
- ¹⁷⁶ Law amending the Law on Mandatory Social Insurance Contributions (Official Gazette of the Republic of Macedonia 185/11).
- ¹⁷⁷ Co-payments have existed since 1992, but they are considered HIF revenue (part of the category of “other”) and have not been significant, as they have comprised 3-4% of the Fund’s total revenue (Gjorgjević et al. 2006: 36).
- ¹⁷⁸ Law amending the Law on Health Insurance (Official Gazette of the Republic of Macedonia 6/09 and 67/09).
- ¹⁷⁹ Law amending the Law on Mandatory Social Insurance Contributions (Official Gazette of the Republic of Macedonia 53/11 and 185/11).
- ¹⁸⁰ Law on Health Insurance (consolidated text) (Official Gazette of the Republic of Macedonia 19/11).
- ¹⁸¹ Law amending the Law on Health Insurance (Official Gazette of the Republic of Macedonia 98/08).
- ¹⁸² In the framework of the gross salary concept reform, the contribution rate for unemployment insurance was altered several times and was finally set at 1,1% (Official Gazette of the Republic of Macedonia 185/11), which was a reduction of 0,5 percent.
- ¹⁸³ Law on Employment and Unemployment Insurance (Official Gazette of the Republic of Macedonia 37/97, 25/00, 101/00, 50/01, 25/03, 37/04, 4/05, 50/06, 29/07, 102/08, 161/08, 50/10, 88/10, 51/11, 11/12).
- ¹⁸⁴ Official Gazette of the Republic of Macedonia 50/06.
- ¹⁸⁵ Official Gazette of the Republic of Macedonia 11/12.
- ¹⁸⁶ Official Gazette of the Republic of Macedonia 25/00.
- ¹⁸⁷ Official Gazette of the Republic of Macedonia 4/05. In 2012, the ‘5 years’ were replaced with ‘18 months’ (Official Gazette of the Republic of Macedonia 11/12).

¹⁸⁸ Official Gazette of the Republic of Macedonia 37/04.

¹⁸⁹ Official Gazette of the Republic of Macedonia 88/10.

¹⁹⁰ Classification based on Law on Social Care (Official Gazette of the Republic of Macedonia 50/97, 16/00, 17/03, 65/04, 62/05, 111/05, 40/07, 98/08 and Law on Social Care, Official Gazette 79/09, 36/11, 51/11).

¹⁹¹ Regulated by the Law on Children's Protection (Official Gazette of the Republic of Macedonia 98/00, 17/03, 65/04, 113/05, 98/08, 107/08, 83/09, 156/09, 51/11, 157/11). Beside child allowance, the law stipulates other benefits as well: special allowance, birth allowance, cost compensation for attendance of a public children's recreational institution, and parental allowance. Parental allowance was introduced in 2008.

¹⁹² The Democratic Party (*Demokratska Partija-DP*) was founded by Petar Gošev, former president of the SDSM. Being unable to form a government after the first multi-party elections, Gošev distanced himself from the SDSM and finally founded the DP in 1993 (Gligorov 2002: 226).

¹⁹³ A petition organized by VMRO-DPMNE and DP, gathering 162.000 signatures and calling for parliament's dissolution and early elections was rejected by the parliamentary majority (Krause 1996: 139).

¹⁹⁴ Upon the signing of the Interim Accord, the Greek government lifted a 19 month economic embargo against Macedonia (New York Times 1995). But also previously, in 1992 Greece imposed an informal trade embargo towards Macedonia, which in turn had an extremely hard time with basic products supply, given it did not become a member of the UN until 1993 and had no access to (Gligorov 2002: 223).

¹⁹⁵ About the UN sanctions against FRY see the chapter on Serbia.

¹⁹⁶ In 2003, VMRO-DPMNE's President, Ljubčo Georgievski, made public his "Theses for Survival of the Macedonian Nation and State", in which he proposed "exchange of population and territories" between ethnically mixed parts of Macedonia and identifying a line which would divide the country (Friedman 2003). The proposal was rejected by all the parties, including the ones belonging to the Albanian block, as well as the international actors, like the EU and the USA, which were interested in making the OFA work.

¹⁹⁷ A high profile case was the indictment of former Prime Minister Bučkovski who was in 2008 found guilty of corruption and abuse of power during his mandate as Minister of Defense in 2001. The fact that there were reports indicating political interference in this case and generally the work of the judiciary (U.S. Department of State 2011) has pointed to the pervasiveness of the problem of political capture.

¹⁹⁸ For example, in 2010, 50,8% of the respondents disapproved of the country's leadership and 41,2% approved of it, and in 2011, 44,3% of the respondents disapproved and 35,3% approved (Gallup Balkan Monitor 2012). Furthermore, the majority of the respondents rated the government's performance as "poor" or "only fair".

¹⁹⁹ In its December 2012 conclusions the Council reiterated that "As set out in the European Council conclusions of June 2008, maintaining good neighborly relations, including a negotiated and mutually accepted solution to the name issue, under the auspices of the UN, remains essential." (Council of the European Union 2012: 10).

²⁰⁰ Referring to the case of the TAT savings bank from Bitola, which had been running a pyramidal savings scheme and which collapsed in 1997. The scandal also hinted that top public officials have been embroiled in the affair.

²⁰¹ Law on the Transformation of Socially Owned Enterprises (Official Gazette of the Republic of Macedonia 38/93).

²⁰² Law on Labour Relations (Official Gazette of the Republic of Macedonia 80/93).

²⁰³ Law on Increasing Employment (Official Gazette of the Republic of Macedonia 65/97).

²⁰⁴ Law amending the Law on Increasing Employment (Official Gazette of the Republic of Macedonia 35/98).

²⁰⁵ Law on Social Care (Official Gazette of the Republic of Macedonia 50/97).

²⁰⁶ This was a term which was brought up and underlined by Nikola Popovski during the interview.

²⁰⁷ In 2000 general government expenditure was 33,7 per cent of the GDP, in 2001 – 40,3%, in 2002 – 40,5%, while in 2003 it declined again to 34,5% (EBRD 2010a).

²⁰⁸ Official Gazette of the Republic of Macedonia 25/00.

²⁰⁹ In 2004 the Social Protection Implementation Loan was approved which supported the reform of the social protection system as well as the pension system.

²¹⁰ For instance, the GDP growth rate in 2009 was -0,9 and in 2010 and 2011 it was 2,9 (EBRD 2012: 112).

²¹¹ Such was the case of the oppositionally oriented A1 television station.

²¹² During that period the Law on Employment and Unemployment Insurance was amended eight times (Official Gazette of the Republic of Macedonia 37/97, 25/00, 101/00, 50/01, 25/03, 37/04, 4/05, 50/06, 29/07, 102/08, 161/08, 50/10, 88/10, 51/11, 11/12, 114/12), and the Law on Labor Relations – nine times (Official Gazette of the Republic of Macedonia 62/05, 106/08, 161/08, 114/09, 130/09, 50/10, 52/10, 124/10, 47/11, 39/12).

²¹³ Law on Material Compensation of Persons who became Unemployed due to the Privatization of Enterprises with Dominant State Ownership in the Period between 2000 and 2004 (Official Gazette of the Republic of Macedonia 87/08).

²¹⁴ Calculation based on a total number of 114.451 welfare benefit recipients (Table 33 + Table 34) in proportion to 2.075 million people (Willemsen 2010: 967). The data should be interpreted with caution, in case of an overlap of benefits, in which case the percentage may be even lower.

²¹⁵ It is worth mentioning that the proposal originally came from SDSM in 2007. It was then rejected by the ruling coalition and later presented as its own proposal.

²¹⁶ Law on Health Insurance (Official Gazette of the Republic of Macedonia 25/00, 34/00, 96/00, 50/01, 11/02, 31/03, 84/05, 37/06, 18/07, 36/07, 82/08, 98/08, 6/09, 67/09, 50/10, 156/10, 53/11, 26/12), Law on Health Protection (Official Gazette of the Republic of Macedonia 38/91, 46/93, 55/95, 10/04, 84/05, 111/05, 65/06, 5/07, 77/08, 67/09, 88/10, 44/11, 53/11) and a new Law on Health Protection (Official Gazette of the Republic of Macedonia 43/12, 145/12).

²¹⁷ In 2003 the former leader of the party, Ljubčo Georgievski, split from VMRO-DPMNE and founded VMRO-NP. His withdrawal has freed the party from some of the baggage in political and economic sense, given he has been

openly advocating for division of the country, as well as having in mind his double citizenship (Bulgarian). Also, the corruptive affairs of VMRO-DPMNE's rule between 1998-2002 were associated with the old leadership. Through the 'Skopje 2014' project (started in 2010), which envisaged a drastic makeover of the capital's look through a proliferation of new buildings and sculptures, climaxing with the 28 meter high 'Warrior on a Horse', the official name of a statue of Alexander the Great, the new VMRO-DPMNE leader, Nikola Gruevski, introduced a new, 'ancient' component in the nationalistic rhetoric, and thus contributed to additional confusion in identity issues.

²¹⁸ Saveski (2013) refers to SDSM's proposal to introduce progressive tax rates of 10, 12 and 15 per cent, as correction of VMRO-DPMNE's flat tax rate of 10 per cent which was introduced in 2006. Comparatively, the progressive tax rates previous to 1998 were 23, 27 and 35 per cent.

²¹⁹ Two trade union confederations are represented in the Economic-Social Council - The Federation of Trade Unions of Macedonia (*Sojuz na sindikatite na Makedonija - SSM*) and the Confederation of Free Trade Unions of Macedonia (*Konfederacija na slobodni sindikati na Makedonija - KSS*). There is one employers' organization: Organization of Employers of Macedonia (*Organizacija na rabotodavači na Makedonia - ORM*).

²²⁰ The number of registered civic organization has been growing continuously. For instance in 2010 there were 11.350 and in 2012 - 12.324 civic organizations (Dnevnik 2012a).

²²¹ Also Bosnia and Herzegovina, Montenegro and Kosovo, which are not part of this study.

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10 Annex I. List of Interviews

Slovenia

Černak-Meglič, Andrea (Dr.). Member of the National Assembly of the Republic of Slovenia. Ljubljana, 28 September 2011.

Fink-Hafner, Danica (Dr.). Professor, Faculty of Social Sciences, University of Ljubljana. Ljubljana, 28 September 2011.

Kopač-Mrak, Anja (Dr.). State Secretary, Ministry of Labour, Family, Social Affairs and Equal Opportunities. Ljubljana, 28 September 2011.

Lukić, Goran. Association of Free Trade Unions of Slovenia. Ljubljana, 28 September 2011.

Stanojević, Miroslav (Dr.). Professor, Faculty of Social Sciences, University of Ljubljana. Ljubljana, 27 September 2011.

Croatia

Balaband, Ana. Advisor, Government of the Republic of Croatia. Zagreb, 27 October 2011.

Marušić, Liljana. Senior Advisor, Croatian Pension Insurance Institute. Zagreb, 27 October 2011.

Mastela-Bužan, Vesna. Head of Department, Ministry of Health and Social Welfare. Zagreb, 26 October 2011.

Nestić, Danijel (Dr.). Senior Research Fellow, Institute of Economics. Zagreb, 26 October 2011.

Puljiz, Vlado (Dr.). Professor, Faculty of Law, University of Zagreb. Zagreb, 28 October 2011.

Vidović, Davorko. Member of the Croatian Parliament. Zagreb, 27 October 2011.

Serbia

Andrić, Čedanka. Secretary, Socio-Economic Council. Belgrade, 14 October 2011.

Crnobrnja, Mihajlo (Dr.). Dean, Faculty of Economics, Finance and Administration. Belgrade, 19 October 2011.

Kosanović, Rajko (Dr.). Head of Economic and Social Issues Department, Confederation of Autonomous Trade Unions of Serbia. Belgrade, 13 October 2011.

Matković, Gordana (Dr.). Advisor, President of Serbia and Director, Social Policy Studies Department, Center for Liberal-Democratic Studies, Belgrade, 26 September 2011.

Stojiljković, Zoran (Dr.). Professor, Faculty of Political Sciences, University of Belgrade and Vice-president, United Branch Trade Unions “Independence”. Belgrade, 13 October 2011.

Macedonia

Popovski, Nikola (Dr.). Assistant Professor, European University, Faculty of Economics. Skopje, 13 February 2013.

Ružin, Nano (Dr.). Dean, Department of Political Science, FON University. Skopje, 7 February 2013.

Saveski, Zdravko (Dr.). Associate Professor, FON University. Skopje, 10 February 2013.

11 Annex II. Election Results

SLOVENIA

Election year	Election results (seats, percentage of votes)	Turnout	Parties forming the government	Prime Minister and selected ministers
1990	SD (SDP, ZL, ZLSD): 14 (17,3%) LDS (ZSMS): 12 (14,5) SKD: 11 (13%) SLS (SKZ-LS, SLS+SKD): 11 (12,6%) DS (SDZ): 8 (9,5%) ZS: 8 (8,9%) SDS (SDSS): 6 (7,4%) SSS: 5 (5,4%) LS (SOS): 3 (3,5%) Minorities: 2	83,5%	SKD, SKZ-LS, SDZ, SDSS, ZS, SOS SDP, LDS, DS, ZS, SDSS, SSS	<p style="text-align: center;">Lojze Peterle, 1990-1992 (SKD)</p> Jožefa Puhar, President of Committee for Labour (ZLSD) Katja Boh (until January 1992) (SDSS), President of Committee for Health and Social Security/ Božidar Voljč (ZS), Minister of Health, Family and Social Security Franc Godeša, President of Committee for War Veterans and Disabled (SDP)
1992	LDS: 22 (23,5%) SKD: 15 (14,5%) SD (SDP, ZL, ZLSD): 14 (13,6%) SNS: 12 (10%) SLS (SKZ-LS, SLS+SKD): 10 (8,7%) DS: 6 (5%)	85,9%	LDS, SKD, ZLSD ^a , SDSS ^b	<p style="text-align: center;">Janez Drnovšek, 1993-1997 (LDS)</p> Jožica Puhar (until June 1994) (ZLSD)/ Rina Klinar (until March 1996) (ZLSD)/ Anton Rop (LDS) Minister of Labour, Family and Social Affairs Božidar Voljč, Minister of Health (LDS)

	ZS: 5 (3,7%) SDS (SDSS): 4 (3,3%) Minorities: 2			
1996	LDS: 25 (27%) SLS (SKZ-LS, SLS+SKD): 19 (19,4%) SDS (SDSS): 16 (16,1%) SKD: 10 (9,6%) SD (SDP, ZL, ZLSD): 9 (9%) DeSUS: 5 (4,3%) SNS: 4 (3,2%) Minorities: 2	73,7%	LDS, SLS, DeSUS SLS+SKD, SDS	Janez Drnovšek, 1997-2000 (LDS) Anton Rop, Minister of Labour, Family and Social Affairs (LDS) Marjan Jereb, Minister of Health (SLS) Andrej Bajuk, 2000 (SLS+SKD & N.Si) Miha Brejc, Minister of Labour, Family and Social Affairs (SDS) Andrej Bručan, Minister of Health (SDS)
2000	LDS: 34 (36,3%) SDS (SDSS): 14 (15,9%) SD (SDP, ZL, ZLSD): 11 (12,1%) SLS (SKZ-LS, SLS+SKD): 9 (9,6%) N.Si: 8 (8,6%) DeSUS: 4 (5,2%) SNS: 4 (4,4%) SMS: 4 (4,3%) Minorities: 2	70,4%	LDS, ZLSD, SLS+SKD, DeSUS LDS, ZLSD, SLS ^c , DeSUS	Janez Drnovšek, 2000-2002 (LDS) Anton Rop, 2002-2004 (LDS) Vlado Dimovski, Minister of Labour, Family and Social Affairs (ZLSD) Dušan Keber, Minister of Health (LDS) ^d
2004	SDS: 29 (29,1%) LDS: 23 (22,8%) SD (SDP, ZL, ZLSD): 10 (10,2%) N.Si: 9 (9,1%) SLS: 7 (6,8%) SNS: 6 (6,3%)	60,6%	SDS, SLS, N.Si, DeSUS	Janez Janša, 2004-2008 (SDS) Janez Drobnič (until December 2006) (N.Si)/ Marjeta Cotman (N.Si), Minister of Labour, Family and Social Affairs Andrej Bručan (until September 2007) (SDS)/

	DeSUS: 4 (4%) Minorities: 2			Zofija Mazej Kukovič (SDS), Minister of Health
2008	SD: 29 (30,5%) SDS: 28 (29,3%) Zares: 9 (9,4%) DeSUS: 7 (7,5%) SNS: 5 (5,4%) SLS: 5 (5,2%) LDS: 5 (5,2%) Minorities: 2	63,1%	SD, Zares ^e , DeSUS ^f , LDS	Borut Pahor, 2008-2012 (SD) Ivan Svetlik, Minister of Labour, Family and Social Affairs (SD) Borut Miklavčič (until April 2010) (SD) / Dorijan Marušič, Minister of Health
2011	PS: 28 (28,5%) SDS: 26 (26,3%) SD: 10 (10,5%) DL: 8 (8,4%) DeSUS: 6 (7%) SLS: 6 (6,9%) N.Si: 4 (4,8%) Minorities: 2	64,7%	SDS, DL, DeSUS, SLS, N.Si PS, SD, DL, DeSUS	Janez Janša, 2012-2013 (SDS) Alenka Bratušek, 2013- (PS)

Source: Nordsieck 2012; Government of the Republic of Slovenia 2013; ^a: Left the government in 1996; ^b: Left the government in 1994; ^c: Was in government until 20.04.2004; ^d: Vlado Dimovski and Dušan Keber held these ministry posts both in Drnovšek's and Rop's governments; ^e: Left the government in June 2011; ^f: Left the government in May 2011.

Abbreviations:

DeSUS: Democratic Pensioners' Party of Slovenia (*Demokratična Stranka Upokojencev*);

DL: Civic List (*Državljanska Lista*);

DS: Democratic Party (*Demokratska Stranka*) (1990: Slovenian Democratic Union, SDZ);

LDS: Liberal Democracy of Slovenia (*Liberalna Demokracija Slovenije*) (1990: Socialist Youth League of Slovenia, ZSMS);

LS: Liberal Party (*Liberalna Stranka*) (1990: Slovenian Small Trade Party, SOS);

N.Si: New Slovenia-Christian People's Party (*Nova Slovenija- Krščanska Ljudska Stranka*);

PS: Positive Slovenia (*Pozitivna Slovenija*);

SD: Social-Democrats (*Socialni Demokrati*) (1990: Party of Democratic Reform, SDP; 1992: United list, ZL; 1996-2004: United List Social Democrats, ZLSD);

SDS: Slovenian Democratic Party (*Slovenska Demokratska Stranka*) (1990-2000: Social Democratic Party of Slovenia, SDSS);

SKD: Slovene Christian Democrats (*Slovenski Krščanski Demokrati*);

SLS: Slovenian People's Party (*Slovenska Ljudska Stranka*) (1990 Slovenian Peasants' Union-People's Party, SKZ-LS; 2000: Slovenian People's Party+Slovenian Christian Democrats, SLS+SKD);

SMS: Youth Party-European Greens (*Stranka Mladih-Zeleni Evrope*) (2000-2004: Youth Party of Slovenia, SMS);

SNS: Slovenian National Party (*Slovenska Nacionalna Stranka*);

SSS: Socialist Party of Slovenia (*Socialistična Stranka Slovenije*);

Zares: Really-Social Liberals (*Zares-socialno liberalni*);

ZS: Greens of Slovenia (*Zeleni Slovenije*);

CROATIA

Election year	Election results (seats, percentage of votes)	Turnout	Parties forming the government	Prime Minister and selected ministers
1990	HDZ: 55 (41,9%) SDP (SKH-SDP): 20 (35%) KNS: 3 (15,3%) Others: 2 (7,8%)	84,5%	HDZ	Stjepan Mesić, 1990 (HDZ) Josip Manolić, 1990-1991 (HDZ) Franjo Gregurić, 1991-1992 (HDZ)^a
1992	HDZ: 85 (44,7%) HSLs: 14 (17,7%) SDP: 11 (5,5%) HNS: 6 (6,7%) HSP: 5 (7,1%) IDS (with RiDS and DA): 6 (3,2%) HSS: 3 (4,3%) Others: 8 (10,8%)	75,6%	HDZ	Hrvoje Šarinić, 1992-1993 (HDZ) Nikica Valentić, 1993-1995 (HDZ)
1995	HDZ: 75 (45,2%) United list (HSS, HNS, IDS, SBHS, HKDU): 18 (18,3%)	68,8%	HDZ	Zlatko Mateša, 1995-2000 (HDZ)

	HSLs: 12 (11,6%) SDP (with RiDS): 10 (8,9%) HSP: 4 (5%) Others: 8 (11%)			
2000	HDZ: 46 (24,4%) SDP: 43 (40,8%) HSLs (coalition with SDP): 25 PGS (coalition with SDP): 2 SBHS (coalition with SDP): 1 United list (HSS, HNS, IDS, LS): 25 (15,6%) HSP (with HKDU): 5 (5,3%) Others: 4 (12%)	76,5%	SDP, HSLs, HSS, HNS, LS, IDS SDP, HSS, HNS, LS, Libra ^b	Ivica Račan I, 2000-2002 (SDP) Ivica Račan II, 2002-2003 (SDP) Davorko Vidović, Minister of Labour and Social Affairs (SDP) Ana Stavljenić Rukavina, (until October 2001) (HSS)/Andro Vlahušić (HNS), Minister of Health Ivica Pančić, Minister of Croatian Homeland War veterans (SDP)
2003	HDZ: 66 (33,9%) SDP: 34 (22,6%) IDS (coalition with SDP): 4 Libra (coalition with SDP): 3 LS (coalition with SDP): 2 HNS (with PGS): 11 (8%) HSS: 9 (7,2%) HSP: 8 (6,4%) HSU: 3 (4%) HSLs (with DC): 3 (4,1%) HDSS: 1 (1%) Minorities: 8	61,7%	HDZ, DC ^c	Ivo Sanader I, 2003-2008 (HDZ) Branko Vukelić, Minister of Economy, Labour and Entrepreneurship (HDZ) Andrija Hebrang (until February 2005)/ Neven Ljubičić, Minister of Health and Social Affairs, (HDZ) Jadranka Kosor, Minister of Family, Veterans' Affairs and Intergenerational Solidarity (HDZ)
2007	HDZ: 66 (36%) SDP: 56 (30,8%)	59,5%	HDZ, HSS, HSLs, SDSS	Ivo Sanader II, 2008-2009 (HDZ) Jadranka Kosor, 2009-2011 (HDZ)

	HNS: 7 (6,7%) HSS: 8 (6,4%) HSLs: 3 (1,5%) HDSSB: 3 (1,8%) HSU: 1 (4%) HSP: 1 (3,4%) Minorities: 8			Damir Polančec (until October 2009)/Djuro Popijač, Minister of Economy, Labour and Entrepreneurship (HDZ) Darko Milinović, Minister of Health and Social Affairs (HDZ) Jadranka Kosor/Tomislav Ilić (in the Kosor government), Minister of Family, Veterans' Affairs and Intergenerational Solidarity (HDZ)
2011	SDP: 61 (40,7%) HNS (coalition with SDP): 13 HSU (coalition with SDP): 3 IDS (coalition with SDP): 3 HDZ: 47 (34,6%) HL: 6 (5,2%) HDSSB: 6 (2,9%) HSS: 1 (3%) HSP-AS: 1 (2,8%) Independent list: 2 (2,8%) Minorities: 8	56,3%	SDP, HNS, IDS	Zoran Milanović, 2011- (SDP) Mirando Mrsić, Minister of Labour and Pension System (SDP) Rajko Ostojić, Minister of Health (SDP) Milanka Opačić, Minister of Social Welfare and Youth (SDP) Predrag Matić, Minister of Veterans' Affairs (SDP)

Source: Zakošek and Maršić 2010: 796; Tomičić 2011; Nordsieck 2012; HIDRA 2013; ^a: At the peak of the war a Government of National Unity was formed, in which all parliamentary parties were represented except for the Serb parties; ^b: Libra was a party formed from a dissenting faction of HSLs; ^c: DC was a party formed from a dissenting faction of HDZ and it remained in government by 10.02.2006.

Abbreviations:

DA: Dalmatian Action (*Dalmatinska Akcija*);

DC: Democratic Center (*Demokratski Centar*);

HDSS: Croatian Democratic Peasant Party (*Hrvatska Demokratska Seljačka Stranka*);

HDSSB: Croatian Democratic Alliance of Slavonia and Baranja (*Hrvatski Demokratski Savez Slavonije i Baranja*);

HDZ: Croatian Democratic Union (*Hrvatska Demokratska Zajednica*);
 HKDU: Croatian Christian Democratic Union (*Hrvatska Kršćanska Demokratska Unija*);
 HL: Croatian Labourists – Labour Party (*Hrvatski Laburisti – Stranka Rada*);
 HNS: Croatian People’s Party – Liberal Democrats (*Hrvatska Narodna Stranka – Liberalni Demokrati*);
 HSLs: Croatian Social Liberal Party (*Hrvatska Socijalno-Liberalna Stranka*);
 HSP: Croatian Party of Rights (*Hrvatska Stranka Prava*);
 HSP-AS: Croatian Party of Rights Dr. Ante Starčević (*Hrvatska Stranka Prava Dr. Ante Starčević*);
 HSS: Croatian Peasant Party (*Hrvatska Seljačka Stranka*);
 HSU: Croatian Party of Pensioners (*Hrvatska Stranka Umirovljenika*);
 IDS: Istrian Democratic Assembly (*Istarski Demokratski Sabor*);
 KNS: Coalition of People’s Understanding (*Koalicija Narodnog Sporazuma*);
 Libra: Party of Liberal Democrats;
 LS: Liberal Party (*Liberalna Stranka*);
 PGS: Primorje-Gorski Kotar Alliance (*Primorsko-Goranski Savez*) (1992: Rijeka Democratic Alliance, RiDS);
 SBHS: Slavonia-Baranja Croatian Party (*Slavonsko-baranjska Hrvatska Stranka*);
 SDP: Social Democratic Party of Croatia (*Socijaldemokratska Partija Hrvatske*) (1990: League of Communists of Croatia-Party for Democratic Renewal, SKH-SDP);
 SDSS: Independent Democratic Serb Party (*Samostalna Demokratska Srpska Stranka*).

SERBIA

Election year	Election results (seats, percentage of votes)	Turnout	Parties forming the government	Prime Minister and selected ministers
1990	SPS: 194 (46,1%) SPO: 19 (15,8%) DS: 7 (7,4%) VMDK: 8 (2,4%) Others: 22 (28,3%)	71,5%	SPS	Dragutin Zelenović, 1991 (SPS) Radoman Božović, 1991-1993 (SPS)
1992	SPS: 101 (28,8%) SRS: 73 (22,6%) Coalition DEPOS (DSS, SPO, ND, GSS): 50 (16,9%)	69,7%	SPS	Nikola Šainović, 1993-1994 (SPS)

	DS: 6 (4,2%) VMDK: 9 (3%) Others: 11 (24,5%)			
1993	Coalition DEPOS (SPO, ND, GSS): 45 (16,6%) SPS: 123 (36,7%) SRS: 39 (13,9%) DS: 29 (11,6%) DSS: 7 (5,1%) VMDK: 5 (2,6%) Others: 2 (13,5%)	61,3%	SPS, ND	Mirko Marjanović, 1994-1998 (SPS)
1997	SPS-JUL-ND: 110 (34,3%) SRS: 82 (28,1%) SPO: 45 (19,2%) VMSZ: 4 (1,2%) LSV: 4 (2,7%) Others: 5 (13,5%)	57,4%	SPS, JUL, SRS SPS, SPO, coalition DOS	Mirko Marjanović, 1998-2000 (SPS) Milomir Minić, 2000-2001 (SPS)
2000	Coalition DOS (DS, DSS and others): 176 (64,1%) SPS: 37 (13,8%) SRS: 23 (8,6%) SSJ: 14 (5,3%)	58,5%	Coalition DOS	Zoran Djindjić, 2001-2003 (DS) Nebojša Čović, acting 2003 (DA) Žarko Korač, acting 2003 (SDU) Zoran Živković 2003-2004 (DS) Gordana Matković, Minister of Social Affairs (DS) Obren Joksimović (until august 2001 (DSS)/ Tomica Milosavljević (G17 Plus), Minister of Health Dragan Milovanović, Minister of Labour and Employment (ASNS)
2003	SRS: 82 (27,6%)	58,8%	DSS, G17 Plus,	Vojislav Koštunica I, 2004-2007 (DSS)

	DSS: 53 (17,7%) DS-SDU-GSS: 37 (12,6%) G17 Plus-SDP/SD: 34 (11,5%) SPS: 22 (7,6%) SPO-NS: 22 (7,7%)		SDP/SD, SPO, NS	Slobodan Lalović, Minister of Labour, Employment and Social Policy (SDP/SD) Tomica Milosavljević, Minister of Health (G17 Plus)
2007	SRS: 81 (28,6%) DS-SDPS/SDP: 64 (22,7%) DSS-NS-JS: 47 (16,6%) G17 Plus: 19 (6,8%) SPS: 16 (5,6%) LDP-LSV-SDU-DHSS-GSS: 15 (5,3%) VMSZ: 3 (1,3%) Others: 5 (6,7%)	60,6%	DSS, DS, SDPS/SDP, G17 Plus, NS	Vojislav Koštunica II, 2007-2008 (DSS) Rasim Ljajić, Minister of Labour, Employment and Social Policy (SDPS/SDP) Tomica Milosavljević, Minister of Health (G17 Plus)
2008	Coalition ZES (DS, G17 Plus, others): 102 (38,4%) SRS: 78 (29,5%) DSS: 30 (11,6%) SPS-PUPS-JS: 20 (7,6%) LDP-SDU-DHSS: 13 (5,2%) VMSZ: 4 (1,8%) Others: 3 (5,9%)	60,7%	Coalition ZES, SPS, PUPS	Mirko Cvetković, 2008-2012 (DS endorsed) Rasim Ljajić, Minister of Labour, Employment and Social Policy (SDPS/SDP) Tomica Milosavljević (until March 2011)/ Zoran Stanković, Minister of Health (G17 Plus)
2012	SNS (coalition): 73 (29,2%) DS (coalition): 67 (26,8%) SPS-PUPS-JS: 44 (17,6%) DSS: 21 (8,4%) LDP (coalition): 19 (7,6%) URS: 16 (6,4%) VMSZ: 5 (2%)	57,8%	SNS, SPS, PUPS, URS, SDPS/SDP, NS, SDAS	Ivica Dačić, 2012- (SPS) Jovan Krkobabić, Minister of Labour, Employment and Social Policy (PUPS) Slavica Djukić-Dejanović, Minister of Health (SPS)

	SDAS: 2 (0,8%) Others: 3 (1,2%)			
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Source: Orlović 2008a; Nordsieck 2012; RIK 2012.

Abbreviations:

DEPOS: Democratic Movement of Serbia (*Demokratski Pokret Srbije*);

DHSS: Democratic Christian Party of Serbia (*Demohrišćanska Stranka Srbije*);

DOS: Democratic Opposition of Serbia (*Demokratska Opozicija Srbije*);

DS: Democratic Party (*Demokratska Stranka*);

DSS: Democratic Party of Serbia (*Demokratska Stranka Srbije*);

GSS: Civic Alliance of Serbia (*Gradjanski Savez Srbije*);

JS: United Serbia (*Jedinstvena Srbija*);

JUL: Yugoslav Left (*Jugoslovenska Ujedinjena Levica*);

LDP: Liberal Democratic Party (*Liberalno Demokratska Partija*);

LSV: League of Vojvodina Social Democrats (*Liga Socijaldemokrata Vojvodine*);

ND: New Democracy (*Nova Demokratija*);

NS: New Serbia (*Nova Srbija*);

PUPS: Party of United Pensioners of Serbia (*Partija Ujedinjenih Penzionera Srbije*);

SDAS: Party of Democratic Action of Sandjak (*Stranka Demokratske Akcije Sandjaka*);

SDPS/SDP: Social Democratic Party of Serbia, 1995-2009: Sandjak Democratic Party (*Socijaldemokratska partija Srbije/ Sandjačka Demokratska Partija*);

SDP/SD: Social Democratic Party, 1997-2000: Social-Democracy (*Socijal-demokratska Partija/ Socijaldemokratija*);

SDU: Social Democratic Union (*Socijal-Demokratska Unija*);

SNS: Serbian Progressive Party (*Srpska Napredna Stranka*);

SPO: Serbian Renewal Movement (*Srpski Pokret Obnove*);

SPS: Socialist Party of Serbia (*Socijalistička Partija Srbije*);

SRS: Serbian Radical Party (*Srpska Radikalna Stranka*);

SSJ: Serbian Unity Party (*Stranka Srpskog Jedinstva*);

URS: United Regions of Serbia (*Ujedinjeni Regioni Srbije*);

VMDK: Democratic Union of Vojvodina Hungarians (*Vajdasági Magyarok Demokratikus Közössége*);

VMSZ: Alliance of Vojvodina Hungarians (*Vajdasági Magyar Szövetség*);

ZES: For European Serbia (*Za Evropsku Srbiju*).

MACEDONIA

Election year	Election results (seats, percentage of votes)	Turnout	Parties forming the government	Prime Minister and selected ministers
1990	VMRO-DPMNE: 38 (14,4%) SDSM (SKM-PDP): 31 (21,9%) PPD: 22 (21,4%) LPM (SRSM): 17 (16,5%) SPM (SSPNM): 4 (7,2%) PDP: 1 (0,4%) Others: 7 (18,2%)	84,5%	SDSM, LPM, SPM, PPD	Nikola Kljusev, 1991-1992 (Prime Minister of technical Government) Branko Crvenkovski, 1992-1994 (SDSM)
1994	SDSM: 58 (30,8%) LPM (coalition with SDSM): 29 SPM (coalition with SDSM): 8 PPD: 10 (8,3%) PDP: 4 (2,8%) Others: 11 (27,4%) VMRO-DPMNE: - (17,9%) DP: - (12,8%)	77,8%	SDSM, LPM ^a , SPM, PPD	Branko Crvenkovski, 1994-1998 (SDSM) Ilijaz Sabriu (until February 1996)/ Naser Ziberi, Minister of Labour and Social Policy, (PPD) Ilija Filipče (until May 1997)/ Petar Ilievski, Minister of Health, (SDSM)
1998	VMRO-DPMNE: 49 (28,1%) SDSM: 27 (25,1%) PPD: 14 (19,3%) PDSH (coalition with PPD): 11 DA: 13 (10,1%) LDP: 4 (7%) SPM: 1 (4,7%) Others: 1 (5,1%)	72,9%	VMRO-DPMNE, DA, PDSH (after May 2001 wide coalition ^b)	Ljubčo Georgievski, 1998-2002 (VMRO-DPMNE) Bedredin Ibraimi, Minister of Labour and Social Policy (PDSH) Stojan Bogdanov (until May 1999) (VMRO-DPMNE)/Dragan Danailovski (until May 2001) (VMRO- DPMNE)/Petar Miloševski (until Nov. 2001) (LDP)/Gjorgji Orovčanec (NA),

				Minister for Health
2002	SDSM - LDP: 60 (40,5%) VMRO-DPMNE: 28 (24,4%) LPM (coalition with VMRO-DPMNE): 5 BDI: 16 (11,9%) PDSH: 7 (5,2%) PPD: 2 (2,3%) SPM: 1 (2,1%) PDK: 1 (2,1%)	73,4%	SDSM, LDP, BDI	Branko Crvenkovski, 2002-2004 (SDSM) Hari Kostov, June-Dec.2004 (SDSM) Vlado Bučkovski, 2004-2006 (SDSM) Jovan Manasievski (until December 2004)/Stevčo Jakimovski, Minister of Labour and Social Policy (LDP) Redjep Selmani (until December 2004) (BDI)/Vladimir Dimov, Minister of Health (SDSM)
2006	VMRO-DPMNE – SPM – LPM –DS: 45 (32,5%) SDSM – LDP: 32 (23,3%) BDI: 14 (12,1%) PPD (coalition with BDI): 3 PDSH: 11 (7,5%) NSDP: 7 (6%) VMRO-NP: 6 (6,1%) DOM: 1 (1,9%) PEI: 1 (1,2%)	56%	VMRO-DPMNE coalition, NSDP, PDSH	Nikola Gruevski, 2006-2008 (VMRO-DPMNE) Ljupčo Meškov, Minister of Labour and Social Policy (LPM) Imer Selmani, Minister of Health (PDSH)
2008	VMRO-DPMNE – SPM –DOM –DS: 63 (48,8%) SDSM – LDP –NSDP –LPM: 27 (23,6%) BDI: 18 (12,8%) PDSH: 11 (8,3%) PEI: 1 (1,5%)	57,1%	VMRO-DPMNE coalition, BDI	Nikola Gruevski, 2008-2011 (VMRO-DPMNE) Xhelal Bajrami, Minister of Labour and Social Policy (BDI) Bujar Osmani, Minister of Health (BDI)
2011	VMRO-DPMNE (coalition): 56 (39%)	63,4%	VMRO-DPMNE	Nikola Gruevski, 2011- (VMRO-

	SDSM (coalition): 42 (32,8%) BDI: 15 (10,2%) PDSH: 8 (5,9%) RDK: 2 (2,7%)		coalition, BDI	DPMNE) Spiro Ristovski, Minister of Labour and Social Policy (VMRO-DPMNE) Nikola Todorov, Minister of Health (VMRO-DPMNE)
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Source: Willemsen 2010: 981; Nordsieck 2012; Official Gazette of Republic of Macedonia (the officeholders). ^{a:} LPM left the government in 1996; ^{b:} on 21.11.2001 SDSM and LDP left the government.

Abbreviations:

BDI: Democratic Union for Integration (*Bashkimi Demokratik Për Integrim*);

DA: Democratic Alternative (*Demokratska Alternativa*);

DOM: Democratic Renewal of Macedonia (*Demokratska Obnova na Makedonija*);

DP: Democratic Party (*Demokratska Partija*);

DS: Democratic Union (*Demokratski Sojuz*);

LDP: Liberal-Democratic Party (*Liberalno Demokratska Partija*);

LPM: Liberal Party of Macedonia (*Liberalna Partija na Makedonija*), (1990: Union of Reform Forces of Macedonia, SRSM);

NSDP: New Social Democratic Party (*Nova Socijaldemokratska Partija*);

PDK: National Democratic Party (*Partia Demokratike Kombëtare*);

PDSH: Democratic Party of Albanians (*Partia Demokratike Shqiptare*);

PEI: Party for European Future (*Partija za Evropiska Idnina*);

PDP: People's Democratic Party (*Partia Demokratike Popullore*);

PPD: Party for Democratic Prosperity (*Partia Për Prosperitet Demokratik*);

RDK: National Democratic Revival (*Rilindja Demokratike Kombëtare*);

SDSM: Social Democratic Union of Macedonia (*Socijaldemokratski Sojuz na Makedonija*), (1990: League of Communists of Macedonia-Party for Democratic Renewal, SKM-PDP);

SPM: Socialist Party of Macedonia (*Socijalistička Partija na Makedonija*), (1990: Socialist Alliance of the Working People of Macedonia, SSPNM);

VMRO-DPMNE: Democratic Party for Macedonian National Unity (*Vnatrešna Makedonska Revolucionerna Organizacija – Demokratska Partija za Makedonsko Nacionalno Edinstvo*);

VMRO-NP: People's Party (*Vnatrešna Makedonska Revolucionerna Organizacija – Narodna Partija*).

ERKLÄRUNG

Hiermit versichere ich, Marija Stambolieva, geboren am 29.03.1980 in Skopje, dass ich die vorliegende Dissertation selbstständig, ohne unerlaubte Hilfe Dritter angefertigt und andere als die in der Dissertation angegebenen Hilfsmittel nicht benutzt habe. Alle Stellen, die wörtlich oder sinngemäß aus veröffentlichten oder unveröffentlichten Schriften entnommen sind, habe ich als solche kenntlich gemacht. Dritte waren an der inhaltlich-materiellen Erstellung der Dissertation nicht beteiligt; insbesondere habe ich hierfür nicht die Hilfe eines Promotionsberaters in Anspruch genommen. Kein Teil dieser Arbeit ist in einem anderen Promotions- oder Habilitationsverfahren verwendet worden.

Kassel, den 28. Mai 2014

Marija Stambolieva