Devastating "Free Market" Reforms Imposed on Serbia

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Nine years ago, neoliberal political forces took power in Serbia, promising a radical transformation of the economy. Today, deep into that transformation, Serbia is foundering from its effects exacerbated by the worldwide economic downturn. Industrial production has fallen 15 percent compared to the average of last year, (1) while unemployment remains high.

A delegation from the IMF is in Belgrade, negotiating over Serbia's 2010 national budget and how best to deal with the economic crisis. The two sides are not far apart, in that both parties envision more of the usual neoliberal prescriptions as the way out of an economic crisis brought about in large part by those very same measures.

The probable outcome of the talks is the further enthrallment of Serbia to Western dictate. Already the economy has been essentially placed at the service of U.S. and Western European corporate interests, and the centerpiece of that transformation is the privatization drive. The economy of Serbia was at one time predominantly based on two forms of public enterprises: socially-owned firms that were worker managed, and larger state-owned companies. The last remaining firms in the former category are scheduled to be completely eliminated by the end of this year, while the latter category will take longer to tackle.

The outcome for those who work at enterprises that undergo privatization has been all too predictable. Companies privatized in accordance with the 2001 privatization law have shown a decrease of 45 percent in employment over the first two years of private ownership. Those companies that are privatized based on the 2003 law dropped just 15 percent by the end of the first year, but this apparent difference was only because of the extensive downsizing that these firms must undergo prior to sale, in order to make them more attractive to investors. The textile industry has been particularly hard hit, with steep job losses and falling performance. As the Privatization Agency reveals, "the performance of privatized companies is worse than the performance of the sector as a whole," an interesting admission. (2)

Inevitably, it is working people who bear the brunt of privatization. Unemployment in Serbia steadily grew since 2000, when neoliberal political forces came to power, quickly reaching 32 percent within four years. (3) After that there was a modest economic recovery, due in part to the short-term influx of cash from the sale of enterprises through privatization. Unemployment dropped to 16 percent by April 2009, but this apparent improvement is illusory, having to do mainly with the recent adoption of the current American model for calculating unemployment. Under this method, workers who are not regularly and actively seeking jobs are counted as "discouraged," and "out of the job market," and therefore not belonging to the ranks of the unemployed. If one adds back in the number of workers who are classified as "inactive" but who profess both the ability and the desire to work, then the unemployment rate increases to 25 percent. In real terms, then, there has been no meaningful improvement in the unemployment rate. (4) To put this in perspective, at its peak in 1933, unemployment during the Great Depression in the U.S. reached 25 percent, a figure that was then not calculated to exclude a significant portion of workers. Today Serbian workers are enduring their own Great Depression, but one that has been imposed through adoption of the neoliberal economic model. For those who lose their livelihoods, there is little hope. Nearly two thirds of the non-discouraged unemployed have been without work for a year or longer, sometimes much longer. (5) They are society's discards.

"Pay is often barely enough for basic needs including food and bills," points out Dejan Bizinger on his blog. "There is absolutely no way for them to get a mortgage from a bank to buy a car, let alone affording a flat." At an unemployment center, a woman remarks, "Of course I could not get employment." Seeing little hope, she was applying for a reduced early pension. "I am a 50-year -old engineer holding a university degree and the only place I can find a job is at a fast-food restaurant. Think how humiliated I would feel after 30 years of work at the office to start flipping burgers at some local shop." A British resident of Belgrade relates that the "Serbian people are crying out to be able to get mortgages and loans that will allow them to move out of their parents' houses before they turn 40, and by that same token they are crying out for the kind of financial responsibility that will see them become voluntary slaves to their companies; living in fear of losing their jobs." (6) The free market has come to Serbia, with all that it entails.

But things are not universally dire. For those who are well-positioned, there is money to be made, and it is that class that the Serbian government is keen to serve. In particular, it is Western corporate interests that are being wooed. As the Serbian Chamber of Commerce reports, "the key objective" of the privatization process "is to attract foreign investment." (7)

To further that objective, the Law on Foreign Investments offers a broad host of incentives. The corporate tax rate is quite low, just 10 percent. But companies are totally exempt from any taxes whatsoever for a period of ten years from the first year in which they make a profit, as long as they invest a minimum of $11 million and employ at least 100 people. This is an easy hurdle to clear for any investor purchasing a medium-to-large sized firm. Yet even companies unable to meet those conditions are offered a variety of other tax incentives, so that in real terms the corporate tax rate tends to be well below 10 percent. The Law on Foreign Investments also offers guarantees against nationalization, removes restrictions on foreign investment and provides custom duty waivers. (8) In addition, a company that hires a new employee is permitted to take a tax reduction of 100 percent of that person's salary for a period of two years.

To meet the demands of Western corporate investors, Serbia has also launched a program entitled the "guillotine of regulations," which aims to quickly eliminate one third of Serbia's regulations governing business operations. (9) It is probable that many of the regulations that will be axed serve some protective function for the populace. At the inception of the "guillotine" project, the Ministry of Economy invited foreign investors to offer their recommendations on what they wanted to see it accomplish. (10) No clearer signal could have been given as to the project's objectives.

U.S. corporate circles are not shy about ensuring that their needs get met. Their presence is woven throughout the Serbian economic and political system, running much deeper than such visible manifestations as the spread of Western companies and chain stores and the blight of billboards.

Representing the views of the U.S. corporate world, the U.S. Agency for International Development (USAID) has implemented a number of programs in Serbia designed to promote those interests. Among other things, USAID says, its efforts are intended to “help deepen structural reforms.” One of its programs that is designed to advance that objective is the Bankruptcy and Enforcement Strengthening (BES), which helps the Serbian Privatization Agency Bankruptcy Unit “privatize state and socially-owned enterprises through bankruptcy, reorganization and/or liquidation in a more efficient and effective manner.” (11) Not to mention making those enterprises cheaper to purchase for the Western investor. The BES program is managed by a private contractor, Booz Allen and Hamilton, which reports that it is also “attracting global IT companies to outsource in Serbia.” (12)

One of the pillars of USAID’s efforts is the Serbia Economic Growth Activity (SEGA), in which the agency “advises” the government of Serbia “on the formulation and implementation of laws, policies and procedures relating to financial, fiscal and macroeconomic development.” (13) It is SEGA that played a major role in the establishment in Serbia of the Value Added Tax, the most regressive form of taxation there is. (14) The Value Added Tax currently stands at a whopping 18 percent, but the IMF is pushing for it to be raised still higher. Among SEGA’s “key results” achieved so far has been its involvement in the introduction of private pension funds, which are envisioned as an eventual replacement for Serbia’s public pension program. (15) The organization is currently actively “facilitating the next stages of pension reform.” Having helped establish voluntary private pension funds, SEGA is currently “analyzing the feasibility of introducing mandatory private pension funds.” (16) The outcome of that analysis is entirely predictable: the abolishment of the public pension fund and the abandonment of retirees to the tender mercies of the market.

Another component of the agency’s efforts in Serbia is the Municipal Economic Growth Activity (MEGA), which sees its role as “facilitating private sector growth” through a variety of means, including advocating policies and supporting legislative action. (17) That “support” goes so far as to include direct participation in the drafting of Serbian legislation.(18)

MEGA’s most important accomplishment has been the establishment of the National Alliance for Local Economic Development (NALED), “through which leaders from both business and local governments gather together around issues of common interest.” (19) Interests, it probably goes without saying, that are inimical to those of the working population. NALED has initiated what it terms the Business Friendly Certification, which is awarded to those local governments which prove themselves sufficiently subservient to USAID’s demands.

NALED organizes “business encounters” once a month to promote “open dialogue between businesses and government,” thereby furthering the influence of the business world on government policy. (20)

In July, 2009, NALED signed a memorandum of understanding certifying Belgrade as a “business friendly environment.” In line with that agreement, USAID’s MEGA program will train all of the employees in the city and municipal governments “on how to provide relevant information on development opportunities to prospective investors." MEGA will also work with the city on drafting an action plan and defining priorities and projects. It is MEGA that will play the primary role in those endeavors. Belgrade is to be oriented firmly towards the business investor. (21)

Igor Pavlichich, mayor of Novi Sad, Serbia's second largest city, observes, "Since we joined USAID's Municipal Economic Growth Activity program, many expert analyses have been developed on how to rationalize the city's budget expenditures. Program experts have advised us on how to use the budget funds for the capital investments in infrastructure. From now on, public utilities will have to take care of their budgets and to move on to a more market oriented approach."(22) Such statements make one wonder: who is running the affairs of this city, the mayor or USAID? Looking to the future, the city has also developed a strategy of economic development, with the heavy involvement of USAID.(23)

In Nish, the city assembly passed a decision to offer land for industrial construction. Employees of MEGA actually wrote the draft legislation, which the city dutifully passed with the backing of the mayor, who reported that the city would be "offering a number of incentives to new investors." (24) The project is being run by MEGA, and the project leader is an employee of that organization. "The city leadership showed great flexibility in negotiations with potential investors," comments the project leader. (25)

Earlier this year, representatives from the towns of Loznica, Zrenjanin and Kragujevac set up presentations at the Hanover Industry and Technology Fair. "Our appearance at this fair was actually a prize won at the Invest in Serbia competition," pointed out a member of the Loznica group. "All costs of the travel were covered by USAID through its MEGA program." The group's display was also supported by USAID consultants who gave the town's delegation "directions on how to promote themselves," which smacks of treating the town's municipal employees as children in need of guidance. But they learned their lessons well. As one member of the delegation remarked, "Our competitors are India, China and Pakistan, for the cheap labor and wider market potentials." (26)

Since USAID's goals run directly counter to those of any rational working person, propaganda is an essential component of its efforts. The agency can help there too, providing "funding and technical assistance to NGOs across Serbia so that they can mobilize citizens to understand and support necessary reforms." (27) These reforms are considered "necessary," but for whom? Only for the class that stands to gain from them.

Another organization actively involved in the affairs of state in Serbia is the American Chamber of Commerce, as it seeks to promote U.S. business interests. Its "support" of the reform process goes so far as to actually help write Serbian legislation and to have legislation submitted to it for its approval. In a recent example, representatives of the American Chamber of Commerce met with Natasha Kovachevich, Assistant Minister of the Fiscal System Department in the Ministry of Finance. The meeting took place in response to a list of recommendations for so-called "improvements" to the Corporate Tax Law that the American Chamber of Commerce had submitted to the agency. Kovachevich informed the visiting committee that "most of the AmCham recommendations would be incorporated in the New Draft Law," planned to be adopted in tandem with the 2010 budget. Kovachevich then "invited AmCham representatives to a follow-up meeting as soon as the new Draft Law is completed, but before it is sent to Government," so that the American Chamber of Commerce "can talk over any further amendments." (28)

The Foreign Investors Council (FIC) represents the interests of Western corporations in Serbia. Its purpose "is to assist Serbia in fully accepting and nurturing market economy and introducing a system of European values and standards." In order to "improve the investment and business development climate in Serbia," the Foreign Investors Council makes "concrete reform proposals." (29) In other words, it meddles in the Serbian regulatory and legislative process just as the American Chamber of Commerce does.

Each year the Foreign Investors Council produces a White Book, which includes "proposals for improvement of the business environment in Serbia." The aim of the White Book is to "point out the desired changes so as to improve conditions for doing business, and to provide concrete suggestions [to the Serbian government] on how to improve them." As the FIC notes, the organization "has always worked in close partnership with the relevant government authorities."

None of the FIC's "helpful" suggestions are surprising. It calls for more privatization and more "market competition," that is, additional advantages for Western investors. The FIC suggests that "additional decreases in labor expenses are necessary." Apparently, Serbia's already low salaries are considered still too high to suit all investors. There should be "further reductions of the income tax rate and the income amount exempt from taxation, or by a reduction in social security contributions." At over 70 pages, the recommendations are far too numerous to enumerate here, but suffice to say that no stone is left unturned in this wish list. (30)

Not to be left out, the World Bank has its own set of prescriptions it is furnishing to the Serbian government in addressing its fiscal crisis. The Ministry of Finance asked the World Bank to provide advice on constraining expenses, a request the bank was all too happy to comply with, stating that the Serbian "public sector is already oversized."

The World Bank, while acknowledging the cuts that Serbia has already made in public services, feels that more can be done. Current pension benefits are frozen for a period of two years, an action that the bank deems "highly desirable," yet the government of Serbia "should also consider other methods for reducing benefits on a permanent basis." Pension benefits are "too high," the bank complains, explaining that "the pension due to a new retiree in Serbia is equal to nearly 60 percent of the net average wage." Something has to be done about such a state of affairs. After all, a person might survive on such a sum. The solution? "Freeze pensions, then index to inflation." But one has to be careful not to overdo it, lest it cause a popular backlash. "Over the longer term, however, indexation based solely on inflation will reduce pension levels to socially unacceptable levels. Employees would be asked to contribute 22 percent of wage over a lifetime of employment to support a pension equal to 9 percent." What to do, then? Serbia should move to a mixed inflation and wage based system in which benefits would drop substantially but not catastrophically. Another desirable reform would be to reduce pension benefits for early retirees "even if they meet the years of contribution criteria." Raising the retirement age for women would be another improvement, from the bank's standpoint. The goal of pension reform, the World Bank states, is to turn the pension system "into a surplus-generating system which pays very low benefits." What is the point of such a pension system? Simply, to vanish. And in its place? "The Government will also need to further develop the private pension sector." (31)

The health system is another arena ripe for reform. The World Bank suggests that "efforts to right-size [translation: down-size] facilities and staffing at hospitals and [community health centers] should continue."The number of beds at facilities can be reduced. The Health

Insurance Fund "now has a considerable number of occupational therapists on its payroll." This sector should be "assumed by the private sector." Community health centers "could reduce staffing levels without reducing the number of consultations they provide." That is, existing staff should be made to work harder and longer hours and reduce the amount of time spent with each patient. (32)

Education, the World Bank suggests, would benefit from the "rationalization of the school network, particularly at the primary level." The problem, according to the bank, is that "Serbia has too many teachers... As a result, many classes are inefficiently small." The average class size in primary school is 19 students, and in secondary school it is 26. The recommendation for rationalization of the educational system would result in the widespread closing of schools, bussing over long distances of students who reside in sparsely populated areas, and a "considerable reduction in staff." Those teachers who survive mass layoffs would be made to face the prospect of a lowered standard of living. "In principle," the World Bank helpfully suggests, "wage restraint could be a source of future savings," and there is "no evidence" contrary to the proposal that wages could be lowered without generating recruitment and retention problems." With a newly formed large pool of laid off educational staff, there would be an inevitable reluctance among employees who might otherwise clamor over the reduction in their wages. Current regulations in Serbia set the maximum class size at 30. The World Bank proposes changing the regulations so that this number would instead become the minimum class size. To counter claims that smaller class sizes are more conducive to learning, the World Bank points out that Serbian students score lower on achievement tests than their counterparts in some of the other nations of the region. The implication is that packing more students into a classroom will not matter, yet it is difficult to imagine room for improvement under such a scenario. Regardless, that program is underway. The Ministry of Education has already initiated a three-year plan to carry out some of these measures, including the closing of schools and mass layoffs. (33)

To appeal to the IMF and in order to meet loan conditions, Serbia sent a letter of intent to that organization in April 2009, in which a number of promises were made. Serbia committed to freezing pension and public employee salaries for a period of two years and cutting discretionary budgets in all ministries by 26 percent. More importantly from the IMF's standpoint, Serbia indicated that state ownership in banks "will be phased out as soon as market conditions permit," and that it would "continue to restructure state-owned enterprises, increase private sector participation, and improve the investment climate." (34)

The IMF Mission that visited Belgrade in September 2009 noted with approval that the government of Serbia, "in consultation with the World Bank, will proceed with health, education and non-pension social benefit reforms." But the IMF wanted to see a speed up in reforms. "It is now time to shift from immediate crisis-fighting mode to putting in place more medium-term oriented policies," including yet more privatization. (35) As an earlier IMF Mission to Belgrade reported, "We welcome the renewed efforts to accelerate privatization or bankruptcy of socially owned enterprises," but "we urge completion of the process as soon as possible." Many of the previously privatized firms have been sold for peanuts, closed down and then stripped of their assets, leaving the former workers without any livelihood. More of this would be a desirable thing, as the IMF suggests the nuclear option: privatize as fast as possible, and where a firm cannot be sold in a timely manner, close it down and sell off its assets. "The bankruptcy process should be strengthened, and government and public authorities should initiate bankruptcies without delay. Unviable companies that cannot be sold rapidly should be liquidated to free up productive assets."

(36) This is a recipe for sparking a huge leap in unemployment and mass immiseration.

For the IMF, the economic crisis is seen as fortuitous. "The current difficulties present an opportunity to tackle long-delayed structural reforms. While the global financial crisis may not be particularly conducive to pushing ahead with the still extensive privatization agenda, this should not deter the authorities from bold structural reforms. With vested interests likely off balance, this may indeed be an opportune time to tackle long-standing – politically difficult – issues." (37)

That the Serbian government not only listens to such proposals, but enacts them is an embarrassment. The government of Serbia flaunts its disregard for its own citizens. The bourgeois parties in power represent only the narrow interests of their own class and the system's Western beneficiaries.

With mounting radicalization, workers are increasingly responding to the abuses of the system with strikes and protests. Despite strong motivation among the workers, these actions tend to lack much in the way of success, given spotty support from the unions. Indeed, the unions recently signed an agreement with the government on mass layoffs of government employees. (38)

Unfortunately no measure is likely to dislodge the grasp of Western power in Serbia in the foreseeable future. The powers arrayed against workers are at the present time too powerful, and Serbia occupies too important a geographical position in the Balkans, one that Western corporations are not likely to readily relinquish. Centrally located, and along the Danube, the country has the region's major road, rail and river navigation routes. The nation's location is crucial for integrating the entire Balkans under the neoliberal model and the shipment of goods from this low-wage region to the West. It is also an important trading linkage between Europe and the Middle East. The Corridor X project is planned to expand Serbia's transportation capabilities, which as the World Bank reports, " will enable Serbia to capitalize on its geographical position as a key transit country in the Pan-European network." (39) It will be a long and daunting task for the Serbian working class to reverse its losses.

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Notes

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