

workshop report

South East European Studies
at Oxford

The role of the state in South East Europe

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St Antony's College
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seesox
South East European Studies at Oxford

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Report from a workshop organized by South East European Studies at Oxford (SEESOX), in association with Alpha Bank and the European Bank for Reconstruction and Development

This report draws on discussions from a workshop on “The role of the state in South East Europe”, which was held at St. Antony’s College, Oxford, on the 21st of May 2010. The participants were academics and analysts from the UK, the region of South East Europe and abroad. The report represents SEESOX’s interpretation of discussions in the workshop and does not purport to reflect the views of any of the participants. The workshop was coordinated by Dimitri A. Sotiropoulos, SEESOX/Alpha Bank fellow 2009/10 and co-convened by Othon Anastasakis, Peter Sanfey and Max Watson and in synergy with LSEE and the Centre for the Study of Global Governance, LSE.

Introduction

The aim of the workshop was to discuss the role of the state since 2000 in the countries of South East Europe (SEE). The main focus of discussions was on the countries of the Western Balkans, while significant attention was also paid to Romania, Bulgaria and Greece as SEE countries which are already Member-States of the European Union (EU). Workshop participants were invited to focus on the evolution of state institutions and public policies since 2000 rather than on the more familiar developments of the first decade after the transition; on the current situation in SEE states, conceived as sets of institutions, in the context of the recent economic crisis; and on state capacities, multi-level governance, and the state’s prospective roles in the future.

In other words, this was not another workshop exclusively looking at state-building, sovereignty and the international community’s involvement in post-conflict entities. Rather, the workshop’s purpose was to explore the role and functioning of SEE states in the context of their integration with Europe. However, the workshop did not have

Europeanization as its main or exclusive theme either. More concretely, in addition to the influence of external actors (e.g., EU, IMF, international NGOs), the workshop sought to examine the influence of domestic collective actors, including bureaucracies, elites and parties, on state institutions and policies in the 2000s.

The workshop’s discussions were divided into three sessions, each addressing a separate aspect of the role of state in SEE: 1) the state and governance, 2) the state and social welfare, and 3) the state and the economy. The common theme connecting the three sessions was the question how the role of state in SEE has been shaped and re-shaped by domestic and international factors in the face of the economic and political challenges of the last decade.

State and governance in South East Europe

The roots of some of the governance problems, that SEE countries face today, precede the current decade and date back to earlier political and economic upheavals in the region.

Therefore, in order to understand the current problems it is useful to unearth their structural causes. Problems in the organization and functioning of states are not solely caused by political elites or misconceived policies, but are the result of *longue duree* factors. One such structural cause entails historical legacies, for instance the institutional structures and logics that were inherited by previous communist states, especially former Yugoslavia, which was characterized by frequent institutional change. Such legacies have also affected popular expectations in terms of the following: what roles do citizens expect the post-socialist state to play and what services is it supposed to deliver?

There are contrasting expectations from SEE states. At least in the beginning of the transition, among some South East Europeans there was demand for a large welfare state. However, recent research indicates that citizens in post-communist states have lost faith in the power of the state to provide for their basic needs and only rely on their local communities or personal networks. Popular expectations vary across the region, depending on past experiences with the state and on belonging to a majority or a minority social group. Problems with governance in SEE inspired a discussion on the weak vs. strong nature of SEE states. Some of these states may not neatly fit this conceptual division. It was noted, for instance, that while in some respects SEE states are indeed weak and cannot perform the responsibilities of a fully consolidated democratic state, in other respects they are quite strong, especially when it comes to government control over the state

apparatus and its resources. Some West Balkan states control a very large percentage of the GDP and use it for various purposes, including redistribution. The weak vs. strong state paradigm may not be too useful in conceptualizing the nature of the state in SEE.

Some participants suggested the alternative concept of 'unsettled' state. The concept reflects the fact that SEE countries have still not resolved main constitutional issues concerning citizenship, treatment of various minorities and party competition, among other issues. This institutional uncertainty provokes tensions, authoritarian tendencies, and minority problems in SEE states. Others added that SEE states are unsettled for a reason: they are constantly being mishandled since they are used as a tool or opportunity structure by political elites, in order to exploit state resources in their personal and political antagonisms.

A major issue discussed in this session concerned the various forms of democratic deficit of states in SEE. International observers regularly rank the performance of most states in the region below the standards of good democratic performance because of declining media freedom, weak parliaments undergoing frequent and lengthy boycotts, politicized judicial appointments, and high levels of corruption. Democratic deficit is often explained through structural reasons or by referring to inefficiency in particular policies. However, it is useful to look at political patronage for potential answers to the question of democratic deficit in SEE.

Participants engaged in a vivid discussion about how to qualify and measure political patronage in SEE. No consensus was reached regarding the adequacy of using turnover rates of the personnel of public administration as indicators of political patronage. Clearly the control of public administration by dominant political parties is widespread in the region and related to political patronage. Political patronage in SEE is also related to corruption and inappropriately regulated political party funding as well as government effectiveness and government expenditure.

A related discussion evolved on the issue of decentralization in SEE as a phenomenon often linked to political patronage. While present in all SEE states, it seems that political patronage is more extended in more decentralized states due to the greater number of regional and local authorities which are linked to opportunities for patronage. However, the decentralized mode of governance is still the international community's preferred model and this is often imposed on SEE states wherever external actors are involved in institutional design. Decentralization in SEE countries does not often lead to greater government effectiveness, especially since some of the problems these countries face, such as ethnic minority problems, are better addressed at the national than at the local level. The persistence of problems at the local level is due to the even more limited administrative capacity of local governments compared to the corresponding capacity of central governments.

Some participants pointed to imperial history and institutional legacies from the Habsburg and Ottoman empires as well as from former Yugoslavia in order to explain the persistent governance problems of SEE states. The Ottoman Empire had no extensive taxation system, so it did not offer many public services to its subjects. On the contrary, the Habsburg Empire had a more developed taxation apparatus but also offered a wider range of public services to its population. Thus variable historical legacies influenced the public expectations and institutional logic of the SEE states which emerged out of these two empires.

The discussion covered a wide range of issues and factors concerning governance problems of SEE states, namely structural, historical and policy-related aspects of the role of the state. Participants employed general theoretical frameworks in analysing SEE countries (historical institutionalism, the literature on democratization and on governance), but also touched upon particular issues related to problems of civil society development, political elites' perceptions, and problems of the justice systems in SEE.

State and social welfare in South East Europe

The role of the state in social welfare in SEE has changed dramatically since the end of communism and welfare provisions have been significantly re-designed in each of the former communist states. However, the states in SEE have a different starting position than the post-communist states of Central and Eastern Europe. SEE states are poorer, the EU has no significant

influence in social policy and the process of state-building is still unfinished in many of the SEE states. In this session, the role of the state in social welfare in SEE was explored through an analysis of the influence of international organizations on welfare policies (particularly pensions and employment policies) and health policy reform in the 2000s. These are key aspects of social welfare and as such are indicators of the way SEE states re-define their role in social welfare.

While there are many common features which SEE states share in their social welfare systems, there is also large variation between SEE states in terms of the size of public expenditure. Public expenditure as a percentage of GDP is larger among ex-Yugoslav states (amounting up to 50 per cent of the GDP), while lower in the other SEE states (as little as 25 per cent). There is also large variation in social protection and health services as a percentage of public expenditure, ranging from 10 to 25 per cent and 6 to 10 per cent respectively. This variation can be attributed to many factors, such as the relative power of different interest groups influencing the government. For example, the collective organizations of pensioners and war veterans are more influential in some than in other states.

International organizations and donors have heavily influenced health sector reforms in SEE. Many international actors have been involved in designing public health reforms in SEE: UN agencies, international financial institutions, and development agencies. All have approached health reforms with their own agendas. Despite

extensive external involvement, health reforms in SEE have rarely been successful and fully implemented, most often amounting to half-hearted efforts of domestic political elites to follow external actors' advice.

There was no consensus on the question who is responsible for blocking health reforms. The responsibility is often placed upon political elites, who, some argued, act rationally when they block the implementation of health reforms because of personal interests in the private health sectors. However, according to another argument, voters acting rationally would have expressed their preference for access to public goods such as health services. In the same, rational choice line of thinking, political elites themselves would need to pay high contributions to public health sector because they usually belong to the high-income groups. In other words, elites would thus have incentives to proceed with reforming public health. Finally, it was argued that the most likely opponents to reform would be private health providers, who would have most to lose from a reformed and better functioning public health sector.

Much like in the health sector, pension and other social policy reforms in SEE seem to be run by external actors. The World Bank (WB) and International Monetary Fund (IMF) exported their discourse and plans about social policy reform in the domestic policy discourse of SEE states. Among the external actors who are active in SEE the EU is usually deemed important. However, the EU has had only limited influence in social policy. It has been influential

mostly in policy making in gender equality, social inclusion and fighting ethnic and other social discrimination. Notably, external actors are not the only drivers of social reforms in SEE. Institutional legacies also matter and are often producing resistance to the proposed sets of reforms by external actors. This is especially the case in ex-Yugoslav states where external actors are faced with the legacy of a Bismarkian state, which in some cases, such as Serbia, is difficult to overcome.

In SEE the 'normal' social policy discourse about the state vs. the market is complemented by two additional discourses. One is brought in by the WB and its branches and concerns the introduction of conditionality to social benefits, for instance by making the distribution of cash transfers conditional upon children's school attendance. Such practices are alien to the social tradition of SEE states where social benefits have been unconditional. The second discourse is related to the post-conflict reconstruction of many SEE states and is brought in by international NGOs. The latter are involved in administrative capacity building and provision of many services that used to belong to the remit of the state. This pattern has thus led to parallelism in social policy services. Both these discourses have their origins in the development paradigm of the 1970s and 1980s in Latin America and Africa. Participants questioned the usefulness of the aforementioned discourses for SEE states, since these states do not share much with the welfare traditions of the developing world.

International organizations also impact the course of reforms by choosing to empower some domestic actors at the expense of others. Most often international organizations rely upon the services of so called 'internationalized locals' who have worked for many international organizations, speak and understand the 'language' of these organizations and are closely interwoven in the cross-border professional networks, as well as 'localized internationals' who have spend substantial time working in the region and have acquired much the same skills and contacts. Therefore, rather than parliaments and domestic stakeholders, it is those networks that run some welfare reforms in SEE. This observation suggests that SEE states are better seen as overlapping collections of networks rather than stable institutional structures.

Despite the small size of these 'internationalized' networks in SEE, there has been little cross-border sharing of experiences and institutional learning, although recently the communication among leading experts in social policy reforms in SEE has intensified. Demographic factors and path dependencies also matter in explaining variation within the SEE region, since despite shared institutional legacies and common external influences, reforms in some SEE states have developed differently than in others.

The role of the state in the economies of South East Europe

The role of the state in the economy of SEE states was discussed from the perspective of the current global financial crisis which has severely hit

SEE economies. One of the main questions that emerged from the discussion referred to the challenges SEE states may face in the near future in view of two developments: first, the political and social consequences of the current crisis in SEE and, second, the type (or 'variety') of capitalism that will emerge in SEE after the end of the crisis.

One aspect that drew a lot of attention was the role of the state in providing a good business climate for domestic and foreign investments. In that respect SEE states vary a lot. This is shown by evaluations of different states on the basis of indicators measuring the business climate, such as the cost of doing business, economic freedom, competitiveness, and governance. Overall SEE states fare worse than the EU15 average. However, as states' scores and investment flows do not always match and states do not consistently score high or low on all indicators, it is not quite clear which one or several indicators weigh most in determining the business climate in a certain country.

In a number of SEE states fiscal policy plays quite a strong redistributive role; however, because policy was not sufficiently prudent in the run-up to the crisis, it was not in a position to play its full role as a stabiliser of the economy. In addition to some redistribution from rich to poor, SEE states engage in a sort of 'reverse' redistribution, from poor to rich. EU accession seems to have further exacerbated this situation because it demands further increase in redistribution among various population groups. The propensity of

SEE states to engage in redistribution was also linked to the prevalent Orthodox Christianity in SEE states. This religious dogma does not place much emphasis on charity and giving. This observation caused a lively discussion, as participants were divided on the links between the type of religious dogma and performance of the economy.

Another issue that was discussed in this session concerned the fiscal aspect of the economic crisis in SEE, which centred on current account balances of SEE states and the evolvment and interrelatedness of three debts: external, public and private debt. Many SEE countries have limited access to capital markets at reasonable prices (interest rates) and have therefore been forced to keep public debt accumulation under control. However, private debts are rising and this trend has not been matched by a corresponding rise in savings. This has become a major problem in the economies of SEE.

The three debts pose three respective questions:

1. How to increase exports to pay for the foreign debt?
2. How to increase savings to pay for the private debt?
3. How to finance the increasing costs of public debt?

In discussing causal relations among the three debts, the private debt was claimed to push external debt up, exacerbating the problems of national economies of the SEE region. If this is the most troubling aspect of SEE economies today, then fiscal measures, impacting the public rather than the private debt, may be inconsequential.

Still, the IMF seems to have adopted a different approach: it has demanded further public cuts and higher tax revenues, which could depress the growth of these economies and lead them into a prolonged recession.

Moreover, SEE economies are experiencing difficulties which negatively affect exports and private savings because their exchange rates are fixed to the EURO, are using the EURO or have a Currency Board in charge of exchange rates. They are thus subjected to fluctuations in the exchange rate of EURO. Due to euroization, hard pegs or unhedged balance sheet exposures, SEE economies cannot devalue against the EURO as part of their recovery strategy.

A way out of the crisis would not be possible without also restructuring the private debt. Participants debated the proposed solutions and many raised doubts about the feasibility of restructuring the private debt. To resolve their private debt problems SEE states would need to take private foreign banks on board as well, which would be quite difficult. Some questioned the downward trend of public debt, as during the last couple of years the region has witnessed increased public spending as an effort to get out of the financial crisis.

There was a vibrant debate over the usefulness of structural reforms as a means of getting out of the crisis, but no consensus was reached. Structural measures will not bring about short-term effects on the region's economy. For some participants the crisis has fiscal roots and therefore also a fiscal

solution. The question remained about what the consequences of new measures would be and who would bear the cost of the measures.

Conclusions

In the concluding session of the workshop the participants were invited to share their thoughts about all the sessions and the common threads that linked the previous discussion. It was noted that this discussion about SEE did not dwell upon the usual themes such as ethnic conflicts or minority and human rights. While some participants focused on what makes the SEE states a distinct group of cases and pointed out their problematic statehood, deficient democracy and in some cases conflictual past, others emphasized that South East European problems are common European problems and that in some respects South East European issues resemble issues faced by other European states.

List of workshop participants

- 1) Nihan Akyelken (Oxford)
- 2) Othon Anastasakis (Oxford)
- 3) William Bartlett (LSE)
- 4) Boris Begovic (Belgrade)
- 5) Nancy Bermeo (Oxford)
- 6) Florian Bieber (Kent)
- 7) Vesna Bojjic-Dzelilovic (LSE)
- 8) Martin Brusis (Munich)
- 9) Richard Caplan (Oxford)
- 10) Liz David-Barrett (Oxford)
- 11) Milos Damjanovic (Oxford)
- 12) Robert Deacon (Sheffield)
- 13) Kevin Featherstone (LSE)
- 14) Vladimir Gligorov (WIIW, Vienna)
- 15) Ayse Kadioglou (Oxford)
- 16) Laza Kekic (Economist's Intelligence Unit)
- 17) Cvete Koneska (Oxford)
- 18) Eleni Louri (Bank of Greece)
- 19) Kalypso Nicolaidis (Oxford)
- 20) Kerem Oktem (Oxford)
- 21) Cristina Parau (Oxford)
- 22) Michael Pugh (Bradford)
- 23) Lada Sadikovic (Sarajevo)
- 24) Peter Sanfey (EBRD)
- 25) Jonathan Scheele (Oxford)
- 26) Dimitri A. Sotiropoulos (Oxford)
- 27) Axel-Sotiris Wallden (European Commission)
- 28) Max Watson (Oxford)

ABOUT SEESOX

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South East European Studies at Oxford



If you would like to join our mailing list to receive information about our latest events, please contact:

SEESOX
European Studies Centre
St Antony's College
University of Oxford
OX2 6JF

Telephone: +44 1865 274537
Fax: +44 1865 274478
E-mail: seesox@sant.ox.ac.uk

South East European Studies at Oxford (SEESOX) is part of the European Studies Centre at the University of Oxford. It focuses on the interdisciplinary study of the relationship between European integration and the politics, economics and societies of the Balkans, Greece, Turkey and Cyprus. Drawing on the academic excellence of the University and an international network of associates, it conducts policy relevant research on the multifaceted transformations of the region in the 21st century. It follows closely conflict and post-conflict situations and analyses the historical and intellectual influences which have shaped perceptions and actions in the region. In Oxford's best tradition, the SEESOX team is committed to understanding the present through the *longue durée* and reflecting on the future through high quality scholarship.

SEESOX has the following objectives:

- To support high-quality academic and policy-relevant research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote multi-disciplinary study of the region's development within Oxford University (e.g. politics, international relations, law, sociology, economics) working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;

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