



Briefing

Political Trends & Dynamics

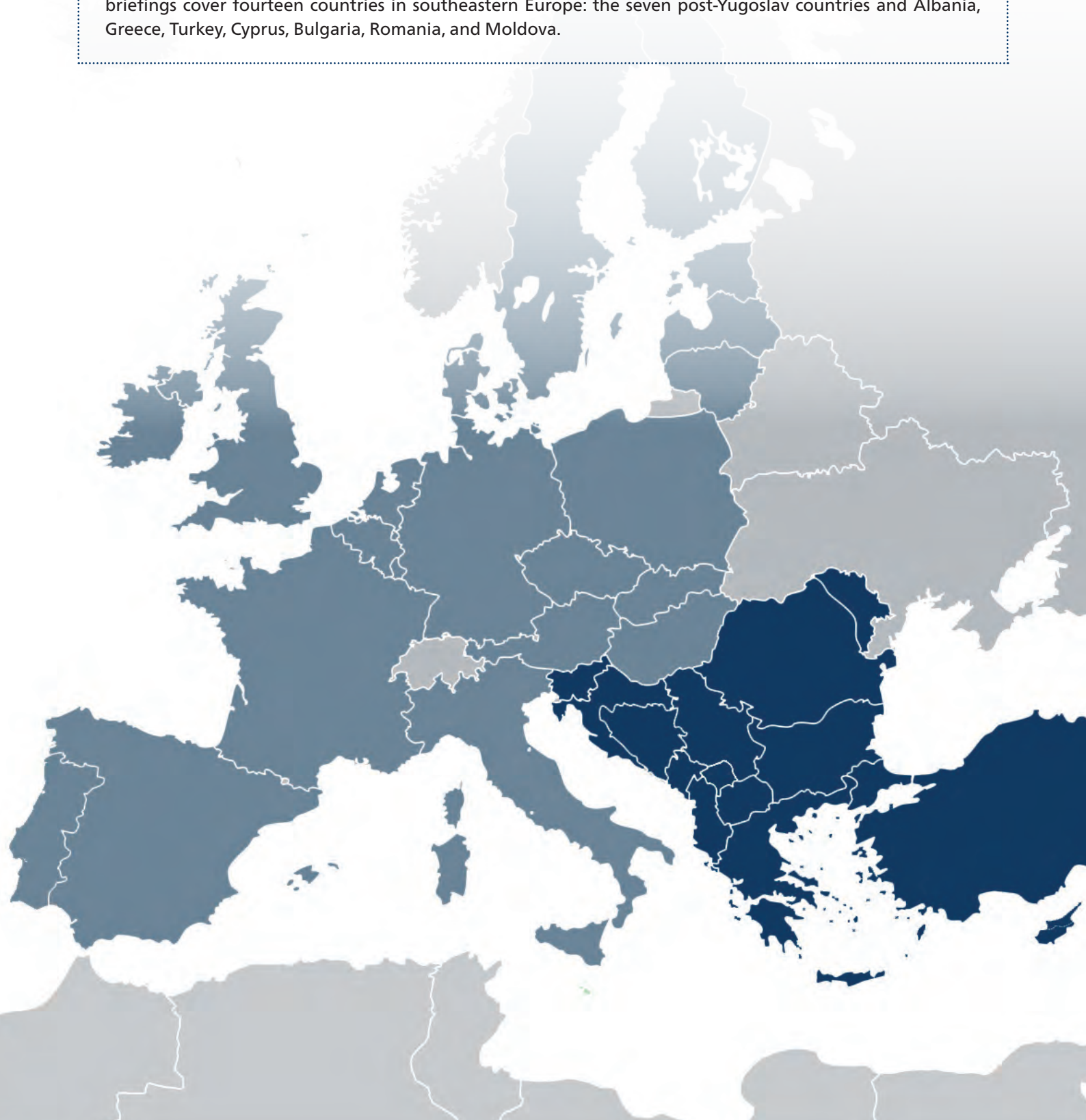
Inequality in Southeast Europe

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Political Trends & Dynamics in Southeast Europe

A FES DIALOGUE SOUTHEAST EUROPE PROJECT 2016–2018

Peace and stability initiatives represent a decades-long cornerstone of the Friedrich-Ebert-Stiftung's work in southeastern Europe. Recent events have only reaffirmed the centrality of Southeast European stability within the broader continental security paradigm. Both democratization and socio-economic justice are intrinsic aspects of a larger progressive peace policy in the region, but so too are consistent threat assessments and efforts to prevent conflict before it erupts. Dialogue SOE aims to broaden the discourse on peace and stability in southeastern Europe and to counter the securitization of prevalent narratives by providing regular analysis that involves a comprehensive understanding of human security, including structural sources of conflict. The briefings cover fourteen countries in southeastern Europe: the seven post-Yugoslav countries and Albania, Greece, Turkey, Cyprus, Bulgaria, Romania, and Moldova.



Editorial

Jasmin Mujanović & Alida Vračić

Although still relatively low in comparison with other countries, especially in Asia, evidence suggests that inequality in Southeast Europe is on the rise and remains a defining feature of the region's post-communist economy. The transition that aimed to bring functioning markets, the arrival of foreign investments, transfers of capital, boost living standards to the approximate level as those in the EU, and bring about more consolidated democratic institutions did not materialize, engendering profound cleavages across the region. The social costs manifested in everything from wealth distribution, health and education outcomes, to the reduction of a significant part of the population evidenced by very high emigration rates.

These issues are compounded by economies that remain broadly inefficient. In many regards, contemporary Southeast Europe polities have preserved the worst aspects of the former one-party regimes, while adding to them all the drawbacks of rapacious neoliberal privatization. That is, in most states across the region, political patrimonialism remains an outsized factor in economic life, but unlike in past decades, there is little in the way of a social welfare state left to mitigate the worst excesses of wealth distribution at the "top". In addition to other socio-economic deficiencies, high inequality inevitably leads to lack of trust in democratic institutions, creating avenues for populism and perpetuating political instability.

As a result, faced with seemingly intractable, generational patterns of parasitic accumulation by the political class, young people across the region are "voting with their feet": they're leaving, in other words, for employment opportunities in Western Europe. They leave behind them even more cavernously empty political economies, ones increasingly divided between the political class which fully depends on a defective political set-up and an impoverished and aging population which depends almost exclusively on the former's remittances.

What can break this cycle of dependency and backwardness? This issue of *Political Trends and Dynamics* offers no easy solutions but it offers sober, detailed reflection. With an emphasis on quantitative analysis by our colleagues at the Sarajevo-based *Analitika Centre for Social Research* policy group and in-depth interview with world renowned economic Branko Milanović (CUNY Graduate Center), the discussion in this volume gestures at a need for a comprehensive and regional approach to addressing inequality.

Still, the contributions in this edition center on two broad claims. First, that the region's economic woes are not new and go back decades, cementing in southeastern Europe a deeply peripheral relationship with the core economies on the rest of the continent. Secondly, and more hopefully, innovation and intervention can still make major strides towards improving economic outcomes for all citizens in the region. Key in this respect is the role of youth: their ability to enter the labor force, to remain and advance within it, and to be able to innovate within its confines.

If local governments and their European partners are able to realize and incentivize the right reforms, economic revitalization is still possible in this region. Using its political leverage, and an impressive network of initiatives and mechanisms, the EU could help foster economic capacities, especially in science, research, and technology, where there are premium jobs and provide concrete incentives for those willing to stay. If they do not, the worst aspects of the region's economic malaise, discussed in detail in this volume, will only further metastasize, becoming ever more difficult to dislodge and repair. As suggested by some authors (Jakov Milatović / Peter Sanfey), under current conditions, it may take 200 years for the region to catch up with the EU average level of GDP per capita. The establishment of smarter, knowledge-based economies could be a good first step to challenge these prospects.

Leveling the Playing Field, Leveling the Scores in SEE¹

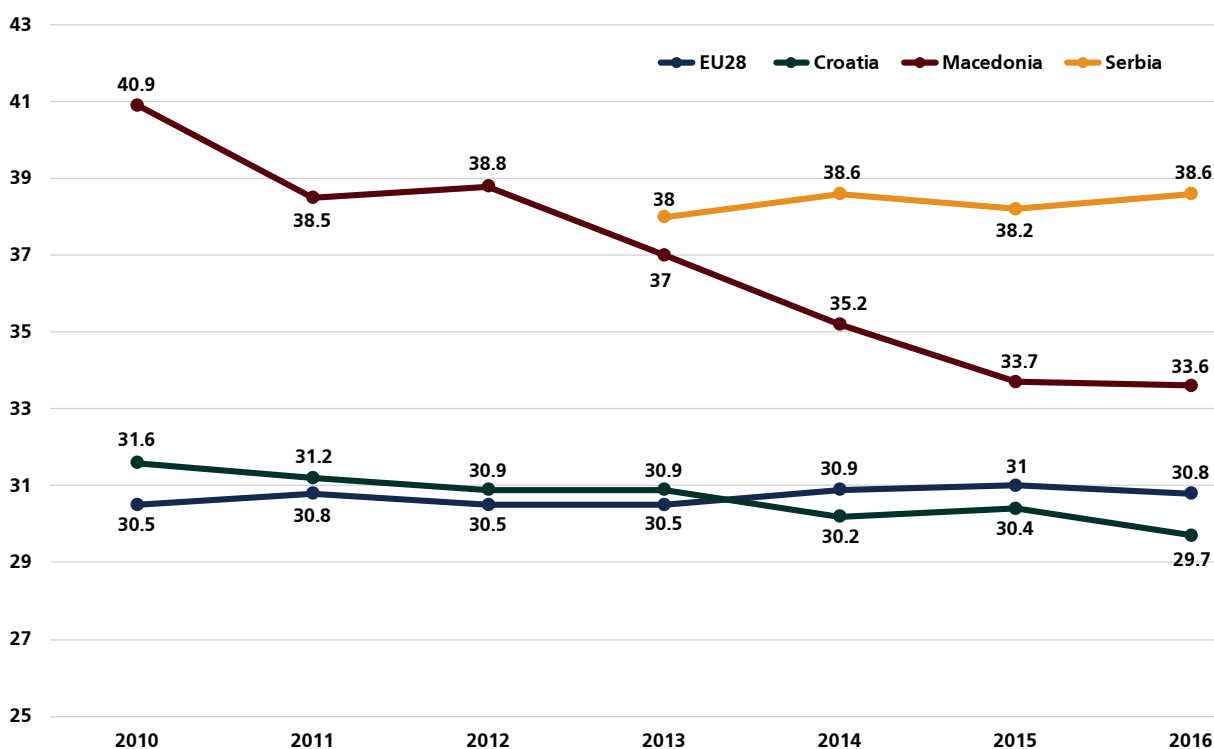
Mirna Jusić

The region of Southeast Europe (SEE) has been faced with exceptionally challenging social, economic and political transformations in recent decades. One such challenge is the high level of income inequality. However, despite economic inequality's potentially dire repercussions, not limited to poverty and social exclusion, a decline in economic growth or even social conflict, it has not occupied a prominent place in SEE governments' policies and programs. As forces such as technological change and globalization are bound to increase economic disparity even further, it is high time for governments in the region to adopt policies to combat inequality.

How high is Inequality in the Region?

Levels of income inequality in two countries of SEE, Serbia and Macedonia, are among the highest in Europe, as suggested by estimates of the Gini coefficient,² based on data from the European Union Statistics on Income and Living Conditions (EU-SILC) surveys. Income inequality has been moderate to low in Croatia, where it has converged with the EU28 average in recent years (see Figure 1).

Figure 1: Gini coefficients of equivalized disposable income, 2010–2016



Source: EU-SILC data, Eurostat³

¹ This article is based on a recent study on income inequality in SEE, which covers Albania, BiH, Croatia, Kosovo, Macedonia and Serbia. For more detailed information, see Mirna Jusić, *Unequal Chances and Unjust Outcomes: Confronting Inequality in Southeast Europe* (Sarajevo: FES SOE, 2018).

² The Gini coefficient is a standard measure of inequality. Zero points denote perfectly equally distributed incomes, and 100 points mean that all income is accrued to one person.

³ Eurostat, "Gini coefficient of equivalized disposable income – EU-SILC survey." For Macedonia, 2010 and 2011 based on Republic of Macedonia State Statistical Office, *Survey of Income and Living Conditions 2012* (Skopje: State Statistical Office, 2015).

EU-SILC data is not available for Albania, BiH and Kosovo. However, estimates of the Gini coefficient of equivalized disposable household income, based on other types of surveys and limited sources of income data from different years suggest that income inequality was as high as 41.4 Gini points in 2015 in BiH, 38.1 Gini points in Albania in 2012, and 39.5 Gini points in Kosovo in 2010.⁴

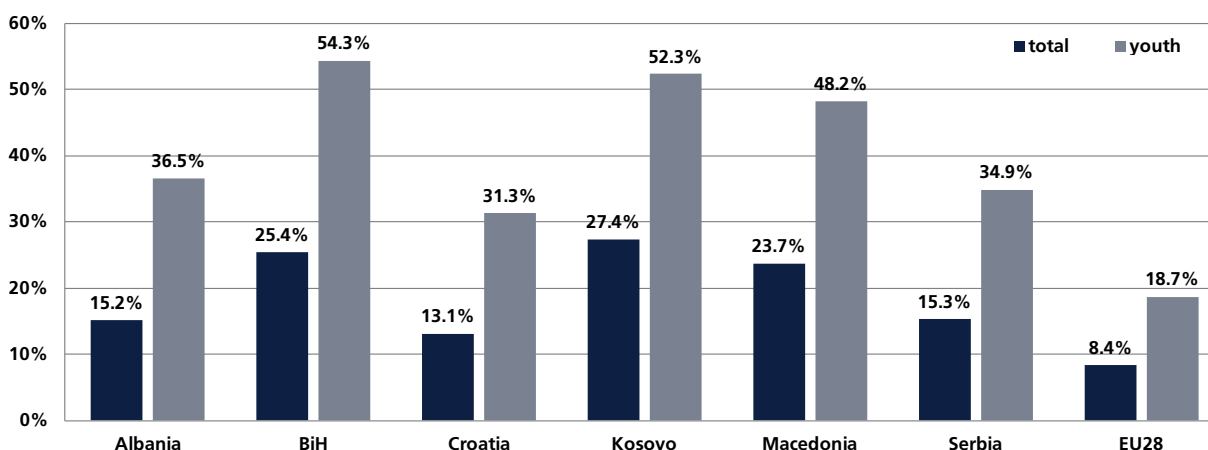
Relying on a categorization by Alvaredo and Gasparini,⁵ these countries predominantly fall in the “middle range” inequality category (30–40 Gini points). In 2016, Croatia joined many EU countries in the “low” inequality group (20–30 Gini points). Serbia had the highest income inequality out of countries covered by the 2016 EU-SILC and came close to the “high” inequality category (40–50 Gini points), which includes most countries of South America and China. The 2015 estimate suggests that BiH falls into this category, and thus appears to be the region’s most unequal country.⁶

Inequality’s Major Culprits

In addition to forces such as globalization and technological change, the rise of inequality is usually attributed to labor market deregulation and the subsequent rise of non-standard work, a lack of investment in human capital, or insufficiently redistributive tax and transfer systems.

Available research suggests labor markets in the region to be a major cause of inequality. Labor market performance is weak in most countries, as reflected by high unemployment (Figure 2) and low activity rates. Individuals do not equal access to the job market and face discrimination based on characteristics such as gender, ethnicity, age, bodily ability, educational attainment or place of residence. Different groups, such as youth, Roma, women and persons with disabilities are particularly have a particularly hard time in accessing labor markets in the region. Moreover, work which lacks in quality, such as vulnerable or informal work, contributes to income inequality due to the generally lower wages that workers in precarious conditions earn.

Figure 2: General (15+ SEE, 15–74 EU), youth (15–24) unemployment rates, 2016, % of labor force



Source: SEE Jobs Gateway/Eurostat⁷

⁴ Estimates prepared for study *Unequal Chances and Unjust Outcomes*, based on data from the Extended Household Budget Survey for BiH (2015), UNDP Kosovo Remittance Study (2010) and Living Standards Measurement Survey (2012) for Albania.

⁵ Facundo Alvaredo and Leonardo Gasparini, “Recent Trends in Inequality and Poverty in Developing Countries,” CEDLAS Document no. 151, Nov. 2013.

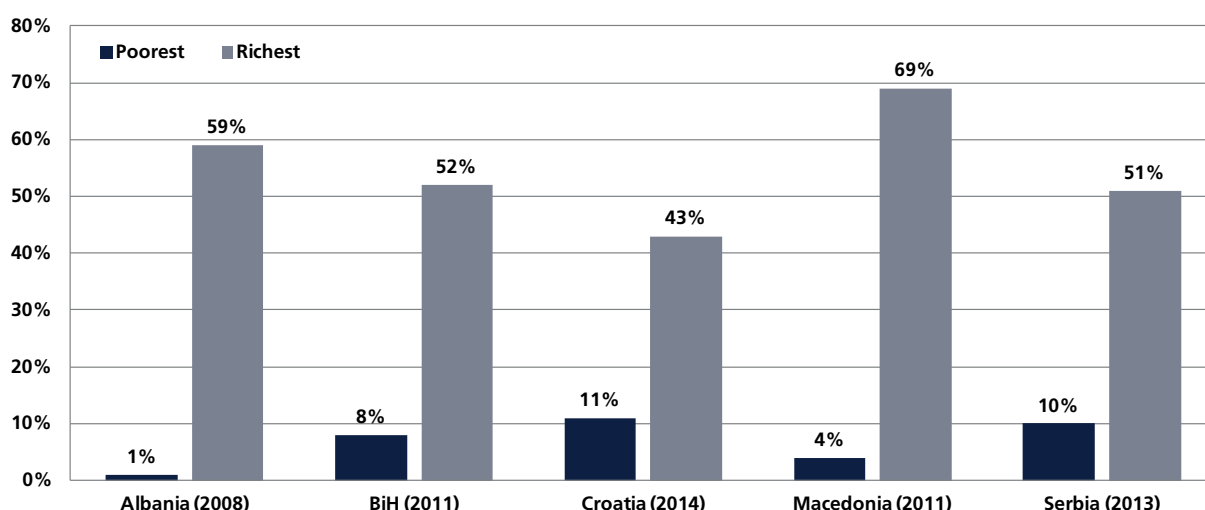
⁶ Estimates based on income point to higher levels of inequality than those based on household consumption expenditure in the region. This is because “the marginal propensity to consume declines with income,” while savings increase, making consumption expenditure more equally distributed. World Bank, *Poverty and Shared Prosperity 2016: Taking on Inequality* (Washington, D.C.: World Bank Group, 2016), p. 79.

⁷ World Bank and iwiw, “The Jobs Gateway in South Eastern Europe” database (www.seejobsgateway.net/charts). Eurostat, “Employment and unemployment statistics” (<http://ec.europa.eu/eurostat/web/lfs/data/database>). Both based on labor force survey (LFS) data.

While social protection and tax systems are seen to offset increases in market income inequality and thus serve as important equalizing instruments, they inadequately perform such a function in most countries of the region. Tax systems, especially personal income tax, are seen to be insufficiently progressive as to alleviate the tax burden on those who earn less and levy a higher tax on those better off.⁸ Moreover, the tax burden is considered to be high on the low-wage earner, which may discourage work in the formal sector. On the other hand, social transfers tend to be meagre and cover only a small segment of the population. They have a positive impact on reducing inequality, but this impact could be greater. While there are differences between countries, social services, especially community-based services, are generally regarded as underdeveloped and undersupplied.

Inequality of *outcome* – or income – is directly related to inequality of *opportunity*, as generated, *inter alia*, through the region's education systems. While available data for individual countries of the SEE region shows that those who have higher levels of educational attainment are less likely to be at risk of poverty or social exclusion and in-work poverty, and that children of parents with higher educational attainment are also less likely to be at risk of poverty or social exclusion,⁹ different indicators also suggest that students do not have access to education on an equal basis. For instance, lack of access for students with disabilities, from Roma communities or students from poor households (Figure 3) or those residing in rural areas has been noted.

Figure 3: Tertiary education completion rates by level of student wealth, at least 2 years of education



Source: World Inequality Database on Education¹⁰

However, equal access is not the only precondition for equality of opportunity in education – quality matters as well. OECD's Program for International Student Assessment (PISA) results suggest that young people from the region generally perform worse on tests in comparison to their OECD peers. This is visible through the high proportion of 15-year-old students who scored below Level 2 proficiency on the PISA, which denotes basic comprehension in math, reading or science. Education systems in which a large share of students have not gained basic skills are not deemed to be sufficiently inclusive.¹¹ Young people's inability to access quality education may obstruct their education-to-work transitions and lead to social exclusion.

⁸ Research suggests that Croatia is an exception, with personal income tax showing a stronger redistributive effect. E.g. see Mitja Čok, Ivica Urban and Miroslav Verbič, "Income Redistribution through Taxes and Social Benefits: The Case of Slovenia and Croatia," *Panoecomicus* 60, no. 5 (2013), pp. 667–686.

⁹ E.g. see data by Eurostat on people at risk of poverty or social exclusion by level of educational attainment, children at risk of poverty or social exclusion by parents' educational attainment, and on income by educational attainment level, all based on EU-SILC data. Available at: <http://ec.europa.eu/eurostat/web/income-and-living-conditions/data/main-tables>

¹⁰ World Inequality Database on Education (www.education-inequalities.org), various surveys. Tertiary completion rates for ages 25–29.

¹¹ OECD, *PISA 2015 Results (Volume 1): Excellence and equity in education* (Geneva: OECD, 2016), p. 203.

What is being done and what should be done to Tackle Inequality in SEE?

The issue of within-country income and wealth inequality has been gaining a prominent place in political agendas worldwide following the recognition of its rise and its grave social consequences, as suggested by influential scholars in this field.¹²

Recent surveys suggest that SEE residents are aware of economic disparity in their countries, as 88 % of respondents, on average, perceived the gap between the rich and the poor to be increasing.¹³ However, concerns over inequality do not appear to be shared by governments of the region. Over the years, labor market policies of deregulation and flexibility have increased precarious work, while they have done little to ameliorate labor market performance. Social safety nets have continuously been eroded through fiscal consolidation efforts.

When analyzing recent commitments articulated in SEE governments' Economic Reform Programs (ERPs) and Employment and Social Reform Programs (ESRPs)¹⁴, economic inequality appears to be a neglected subject. While there is a preoccupation with increasing competitiveness and growth in ERPs, the recognition appears to be missing that economic growth that is not inclusive will not suffice to reduce poverty. Measures that strengthen education, vocational training and lifelong learning systems have recently gained in prominence, but more attention needs to be devoted to making education inclusive. Active labor market policies that aim to enhance the employability of vulnerable groups have also risen on SEE governments' agendas. But more needs to be done to ensure income security in the event of unemployment in the region.

SEE governments ought to regard the causes of inequality with a sense of urgency, due to phenomena that may further increase gaps in prosperity. A loss of human capital through emigration may be detrimental to SEE economies. An ageing population may further burden countries' weak social safety nets. Through technological progress, the region may face the trend of 'hollowing out', experienced by other parts of the world, whereby the share of employment in high- and low-skilled occupations may increase, while the share of middle-skill employment – where the bulk of SEE employment lies – may decrease.¹⁵

In light of the region's EU integration, a broader discussion of socioeconomic reform is necessary. The new EU Enlargement Strategy is an opportunity for that, as it promises a "new reinforced social dimension."¹⁶ A truly reinforced social dimension will hopefully embrace all of the principles of the recently proclaimed European Pillar of Social Rights.¹⁷ These include education, training and life-long learning and active employment support, but also gender equality, secure working conditions and fair wages, effective social dialogue, and a range of benefits and social services. Residents of the region should not only be able to benefit from enhanced job prospects, but also from decent employment, adequate income and quality public services to partake in society in a meaningful way.

Due to inequality's multidimensional nature, combined policy responses in the realms of education, employment, taxation and social policy appear inevitable. Such responses will certainly be dependent on countries' specific circumstances. A number of measures in the labor market, taxation, social protection and education realms, which have been recognized as being conducive to decreasing inequality, may serve as common points of departure.

¹² See, for instance, Thomas Piketty's *Capital in the Twenty-First Century* (2014), Anthony Atkinson's *Inequality: What can be done?* (2015) or Branko Milanović's *Global Inequality* (2016).

¹³ Regional Cooperation Council (RCC), *Balkan Barometer 2017: Public Opinion Survey* (Sarajevo: RCC, 2017), p. 60.

¹⁴ Prospective candidate and candidate countries adopt ERPs, while candidate countries have also prepared ESRPs.

¹⁵ World Bank, *Digital Dividends: World Development Report 2016* (Washington, D.C.: World Bank Group, 2016), pp. 21–22.

¹⁶ European Commission, "A Credible Enlargement Perspective for and enhanced EU Engagement with The Western Balkans," 6 February, 2018, Brussels, p. 13.

¹⁷ See: https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en.

In the labor market realm, these measures include strengthening social dialogue and collective bargaining mechanisms, extending the coverage and generosity of income security schemes, Improving ALMP policy designs, coverage and targeting towards hard-to-employ groups and strengthening the capacities of public employment services to implement such programs.

In the realm of taxation, the progressivity of personal income tax should be increased, and the tax burden on low-wage earners lowered, as to encourage their transition from inactivity or informal to formal employment. Simultaneously, stepping up efforts to prevent tax evasion is important as to secure adequate revenues for investments in the economy, for social transfers and important public services.

In the realm of social protection, a move towards more universal entitlements, with greater coverage and more generous social transfers to protect against social risks, should be considered. Better access to social services, as well as quality assurance in service provision should be ensured. Moreover, governments ought to design and implement more effective family and work reconciliation policies.

Last but not least, in the education realm, both access and quality need to be improved. Greater investment in early childhood education is indispensable. Comprehensive measures have to be implemented to increase access to education for students from low-income families, students with disabilities, the Roma and residents of rural areas. As to enhance quality for easier school-to-work transitions, measures such as teacher education and training, quality assurance systems and students' access to appropriate learning resources are needed, along with modernized curricula and an improved practical orientation of secondary and tertiary education.

Featured Interview: Branko Milanović

One of the leading scholars on income inequality, Branko Milanović is an eminent economist at the CUNY Graduate Center who has published several volumes on the topic. FES spoke with him in Belgrade on June 15th 2018.

FES: *Rising global inequality has been gaining more attention among policymakers worldwide, following on the heels of a number of influential studies on the issue, including your own. Is this momentum running out or just gaining speed?*

Milanović: I would like to answer this question in two parts. The first one is whether the momentum of the discussion on economic inequality is gaining speed or actually running out. Until a couple of years ago I really believed that what we are witnessing now is just a wave of interest in inequality and gradually maybe as economies recover and the economic situation gets better and the GDP starts increasing again, the interest will decrease, but I'm now almost totally convinced that this was wrong and the momentum is still strong. The reason why momentum is still on, I believe, is because of political changes that are happening in Europe and US and which to a large extent are driven by the absence of the growth of middle class incomes, rising inequality, rising political and economic power of the top 1 percent, and migration, which is also a result of inequality and globalization.

Second, in terms of works on inequality, we now have much more data, which is aided by the big data development. Nowadays students and academics have access to so much more in terms of data than we had ten years ago and that means that it is more possible to study the heterogeneity within inequality – not just the differences in income and wealth but more granular differences such as the distribution of prices of a given good. There's one more reason I think the interest will continue to grow: very little has actually been done in terms of policy when it comes to inequality.

FES: *Do you see a spillover to policy debates in this region?*

Milanović: I'm not really very well qualified to say that because I don't follow policy debates as

Branko Milanović at the FES Conference "Inequality as Global Challenge – View from the Balkans" in Belgrade



I normally would have if I were living here. However it doesn't seem to me there are new policy debates – for example, when I look at policy debates in Serbia that have to do with inequality, they center on things like pensions vs wages or taxation of wages, which are to my mind very old debates. So there is nothing which

I see that is particularly new there. My impression is that there is no spillover from the debates in the west into the region here. I just think the issues are somewhat different here, and to my mind, things are very much the same as they were three decades ago.

FES: *The Western Balkans are a work in progress in terms of democratic consolidation. Is less inequality of outcome and opportunity a precondition for democratic transformation?*

Milanović: Yes, I would agree with that. This is particularly true for inequality of opportunity, which is somewhat of a new concept because we did not study inequality of opportunity very much in the past, whereas inequality of outcome (in terms of income) has been studied in the former Yugoslavia for thirty or more years. I also believe that with the transition to capitalism, differences in the access

of education have really been sharpened. I was recently in Slovenia, Croatia, and now I'm in Serbia, and it seems to me this is a big issue. For one thing, you have educational systems that after a certain level charge tuition fees which many people can't afford. Secondly, people from the poorer families find it very difficult to get to higher quality schools because they do not have the preconditions that people from richer families have, which is a particularly important problem for minorities. A common view is that Roma people's economic status and social inclusion is much worse now than it was under socialism, where there were greater attempts to send Roma children to school, for example. So I would answer yes, I think it is an important precondition for more stable democracy – not the only one, but one of them.

FES: You have previously spoken about the link between inequality and populism. Do you see any evidence suggesting that economic dissatisfaction in this region is fueling populism?

Milanović: That's a very difficult question. Perhaps because the issue of economic populism has been studied so much in the West, we tend to believe that the effects that we see in the region are somehow related to the West. However, I think there are significant differences between former Yugoslav republics and the West. In other words, if we look at populist-nationalist parties in Croatia and Serbia and to a large extent in both parts of Bosnia, I don't see this as a result of similar processes like in Italy, Hungary, or Austria. This is rather the reflection of unsettled political settlement of wars, still strong nationalist appeal, and the dissatisfaction about economic outcomes – because it is very clear that even in Croatia, which is doing a little bit better as a member of EU, the economic outcomes were much worse than what people expected. That's also very obvious in the case of Bosnia and both countries are losing a significant number of people. It's interesting that the Croatian president is complaining about emigration when it seems that everybody in Europe is complaining about immigration. The same goes for in Serbia where also outcomes fell significantly short of what people were expecting after 2000 and after the ousting of Milosevic.

FES: The Western Balkans is different from many other regions due to the prospect of joining the European Union. How do you assess the role of the EU in reducing economic inequality in its south-eastern corner?

Milanović: This is also a very difficult question. Of course, the prospect of joining the EU is very important one because negotiations and work on different chapters are certainly helpful for the countries in the sense that actually helps them change their judicial system, regulations, etc., but whether it has much of a role in terms of reducing economic inequality I'm really not sure. In principle it should help reduce some of these issues that we mentioned before about inequality of opportunity but I don't see EU having much of a direct role in reducing inequality. After all, it would have had to reduce more inequality within its own union and we don't see much evidence of this – in fact what is happening is that probably for the first time since the foundation of European Community and then the EU, we have divergence of incomes between EU countries. For example, we have the case of Greece which has lost quite a lot of its income, and Italy which has not grown for twenty years.

FES: Recent studies, including one published by the FES, suggest moderate to high levels of within-country inequality of income in Southeast Europe, which are among the highest in Europe. In your work to date, you speak of 'benign forces' that reduce inequality such as investments in education or improvements in social security. However, in your blogs and interviews, you have also questioned some measures commonly seen as reducing inequality, such as progressive taxation or broader social safety nets. What do you believe are some realistic ways in which governments of the region can, in fact, reduce economic inequality?

Milanović: I would like to say that I haven't exactly questioned measures like progressive taxation or broader social safety net. My argument was that these measures, which have been very effective after WWII and continued to be effective until 1980–1990 cannot be expected to have an equivalent role in the next century.

Let's take education. Many parts of Western Europe had average education levels of 6 or 8 years, which then increased to 13 and 14. This mass inflow of university-educated people all the way to 1980 reduced the wage premium and then reduced inequality. But we cannot expect this to have the same effect in the future simply because there is a limit to the number of years of education. In Western Europe we have not reached a level where about 80 % of people have reached

the limits of education which they wish to have. You are not going to get much of an additional downward pressure on inequality from the increasing education even more, because room to grow is very small.

Secondly, I think the social systems in Western countries are already large; in order to be larger it would imply imposing very high taxation and I don't see the willingness to have higher taxation among the middle class. This is why I don't see an increase in social transfers as the best way to reduce inequality. If anything, if you look what has happened in France recently, they are actually trying to reduce social transfers to the poor. In that sense, I think we have reached the limit in terms of what typical means of inequality reduction in the West used to be.

Now, what does it mean for the SEE countries? Well, in the way the system is organized, they are fairly similar to "old-fashioned" capitalist Western countries because they all had, as the result to a large extent of urbanization, industrialization, and socialism, high coverage of benefits, especially pensions, unemployment benefits, child allowances, social assistance, maternity leave, paid sick leave, and so on. So it was really the decline of the GDP in many of these countries after the war and the transition that some of these regionally acquired rights were eroded.

Now, it would be very nice to say: we really have to reintroduce that or increase it, but the same forces that I mentioned before that limit the expansion of the welfare system in the West

are the same in the southeast of Europe. In other words, if the West is unable to increase the scope of social transfers, I think SEE is even more unable to increase the scope. Partly due to the aging population. As we know, the aging population is very large in countries

like Serbia and Croatia but also Bulgaria and Hungary. So it's very difficult for them to use again the same methods which have been used in the past. I think these countries are in a very difficult position because 'on paper' they have reached sort of the level of social protection which is very similar to countries that are much richer than them. If you look at West European countries, they are 3 to 4 times richer than SEE countries but the level of social protection is similar in relative terms (ratio between pensions

– and the average wage might be even higher in Serbia than in some developed countries).

In other words, one has to think more creatively about what to do in terms of social safety net in SEE and maybe even learn from some of the South American experiences – unconditional or conditional cash transfers. These are technically not typical means that have been used in Europe before because Europe was more developed but I think that actually given the situation that exists now, it may be not a bad idea some of the things which have actually really reduced poverty rates in Brazil, Mexico, and Colombia – and I think it's also used in Armenia and Georgia.

*FES: In your book *Global Inequality* you speak of the links between migration and inequality. In the Western Balkans region, there has been an increasing trend of emigration of young, skilled workers to the EU and other parts of the world in recent years. There is a lot of discussion regarding how such emigration may impact economic inequality at home, with some suggesting that it may even lower inequality in the short run through remittances, for instance. What do you posit are the long-term effects of such emigration on economic inequality in the region?*

Milanović: Economic emigration from the region is not a new phenomenon. It goes back to the beginning of the previous century when people from Dalmatia in particular migrated en masse to the USA. It continued after WWII, often times motivated by political reasons, and then it increased substantially after the liberalization and

reforms of 1965 and 1968 in Yugoslavia. Of course, we know that Yugoslavs were at some point the largest group of foreign workers in West Germany before Turkish immigration became so significant. So, it is a not new phenomenon.

"In that sense, the increase in income inequality which happened after transition was also to some extent also due to an erosion of social welfare net."

The problem with "new emigration" is that for the countries that are members of EU, it is much easier to emigrate right now than ever before, while for other countries it's as easy to find a job, but knowledge of the possibilities is the same. People know that they can make much more money and of course this is very attractive to the young and skilled people. This is distinct from the 1960s and 1970s, when emigration from Yugoslavia to Germany was low-skilled emigration with some small percentage

of high-skilled cases. Now the situation is different. One can argue that this emigration is negative because it could actually reduce the availability of highly-skilled people.

I have seen studies that find that this is a problem for professions such as doctors and nurses in countries like Serbia, but also Hungary. Hungary lost an incredible number of doctors to the EU, and this is where usual economic mechanisms don't work. Hungary, for example, can double or triple salaries, but the effect of that will take a number of years as you have actually to school new doctors (and medical school takes six or seven years). So the results of any responsive policy are really going to take some time. In the meantime, you might have hundreds or maybe thousands of people who died because of inadequate health care. There's no way to have an instant supply response in those cases.

When it comes to remittances, there is important work done on the topic, and people put a lot of emphasis on that. I think it is a good but ultimately short-term palliative solution. Historically, no country has developed itself by essentially exporting people and then expecting to get remittances back. Empirical studies for remittances show that originally, when people emigrate they actually remit the money but gradually links between them and their home country become much weaker. The second generation obviously has far fewer links; they don't have reasons to invest there, so remittances decrease. There is something to the counterargument offered by China, where the Chinese diaspora and Chinese "know how" from Hong Kong, Taiwan, and the USA was very important in Chinese development, but I'm not sure that that would really apply to the smaller countries. So, I would say yes, if you already have emigration, of course it's good that you should get something on the balance of payments through remittances, but to believe it's going to be a lasting solution is doubtful. It could be a longer-term solu-

tion for a country like the Philippines that has a large increasing population, but if you look at countries of the region, they have stagnant or declining populations, so the more people they export the fewer they have. Again, I don't see that as a solution.

FES: *Research shows that labor markets are an important culprit of inequality in SEE. Also, technological change may 'hollow out' labor markets, potentially increasing inequality further. Is there really a trade-off between competitiveness and more secure and quality employment?*

Milanović: This is a good question. We see it practically every day whenever governments in the region speak about foreign investors: they always emphasize the cheapness of the labor force and even a lack of protection of labor force. So essentially what we are seeing is a trade-off: We cannot offer you much more of anything else but we can offer you a relatively skilled labor force that will be cheap and docile. They will not have strikes, there are no trade unions. Today we're actually seeing for the first time in Serbia dissatisfaction expressed through labor strikes. So I would say that yes, it seems to be the case and it's not only in the region generally speaking – we see it in Bangladesh, Burma, we see it often that countries strive to create their own image or to increase their appeal to foreign investors by saying that they don't follow workers' right. Now, does this tradeoff makes sense is much more difficult to answer. Clearly, if you really go against workers' rights in a big way, you would probably have very large worker churn, you would also incentivize people to not really care much about their jobs, you would not have investment in education, so probably in the long term you would probably need to have workers standards generally recognized and accepted by ILO. The advantages that very often are given to foreign investors are basically advantages in terms of the cheapness of labor. So I'm afraid the tradeoff is real.

The Interview was conducted by Bojan Ladjevac, project coordinator, Friedrich Ebert Foundation, office in Belgrade.

The background of the entire page is a blue-tinted photograph of a concrete wall. In the upper left, a white dove is painted in flight. In the lower right, a large peace symbol is painted, featuring a dove in the center and radiating lines. A metal railing is visible on the right side of the image.

POLITICAL TRENDS & DYNAMICS

OVERVIEW

THE AIM OF THIS SECTION IS TO BROADEN THE DISCOURSE ON PEACE AND STABILITY IN SOUTHEAST EUROPE AND TO PROVIDE ANALYSIS THAT INVOLVES A COMPREHENSIVE UNDERSTANDING OF HUMAN SECURITY, INCLUDING STRUCTURAL SOURCES OF CONFLICT. THE BRIEFINGS COVER FOURTEEN COUNTRIES IN SOUTHEASTERN EUROPE: THE SEVEN POST-YUGOSLAV COUNTRIES AND ALBANIA, GREECE, TURKEY, CYPRUS, BULGARIA, ROMANIA, AND MOLDOVA.

The last month has clearly been a period of international summitry when it comes to the Balkan region. So much so that one might have forgiven Balkan leaders if they were not sure at which summit they had woken up at on any given day. While grand gestures and strong language were employed at most of these summits, many in the region wondered what their real achievements and purpose were.

Perhaps the highlight of this summitry was the **London Summit**, held under the auspices of the Berlin Process on July 9–10. The fifth in a string of annual summits initiated in 2014 by the government of Angela Merkel in Berlin, the Berlin Process was launched in order to both promote regional cooperation in the Balkans and to assist the integration of the region into the EU. Official documents adopted under the auspices of the Berlin Process frequently stress that it is not an alternative to EU enlargement, but rather complementary to it. While this largely holds true, it is impossible to escape the impression that the summits held as part of the Berlin Process are at least in part intended as some kind of compensation, or distraction, from the slow pace of the enlargement process itself.

Theresa May and Andrej Plenković exchange football shirts at the Western Balkans Summit in London



Held in London this year, the summit had the distinct flavor of an agenda set by the British government, itself in the process of redefining its role in Europe and the EU. The usual talk of fostering regional cooperation was there, particularly in the economic sphere, as well as various forms of 'connectivity' in the region – spanning

everything from infrastructure projects to digital connectivity. Yet London has also decided to place a particularly strong focus on cooperation in the region (and with the region) when it comes to combatting organized crime. Cyber security will also receive greater attention in the future, while the British government announced the doubling of its assistance to the Western Balkans to 90 million euros.

While all of this was packaged as being geared to the needs of the Western Balkans candidate countries, only a very thin veil disguised the fact that the British government was also very much pursuing its own domestic priorities via its security and organized crime oriented agenda. Press reports from the summit noted that organized crime groups from the region, overwhelmingly those from Albania, have a powerful presence in the UK.

The irony of the moment – the summit being organized, as it was, by a country in the process of leaving the EU yet promoting the virtues of EU membership to those still not in the club – was also not lost on those in attendance. To spice things up further, the summit was effectively left without a host as the British Foreign Secretary, Boris Johnson, resigned as the summit kicked off, unhappy over Prime Minister Theresa May's plans for a 'soft Brexit'. Ever quick to make provocative comments, Serbian Foreign Minister declared at one of the Summit's panels that 'all around us are various performances', going on to say that one such "performance" was that 'we are discussing – in a country leaving the EU – the European integration of the Balkans'.

The London Summit was preceded by a very different international meeting – the **16+1 Sofia Summit** between China and the countries of Central and Eastern Europe (among them 11 EU member states and 5 aspiring EU candidates from the Balkans). Launched in 2012, the 16+1 summit format seeks to improve cooperation between China and the countries of Central and Eastern Europe (CEE). The summits are usually also an opportunity for the countries of the CEE to compete for Chinese investments and loans for infrastructure projects.

The fact that the 16+1 format brings together a select group of EU states and non-EU aspir-

ants has, at times, been viewed with suspicion by many EU officials and commentators who argue that China is using these summits in an attempt to divide EU member states and build its own leverage over individual CEE countries. With this in mind, this year's summit was perhaps most notable for the extent to which Chinese officials, from Prime Minister Li Keqiang down, sought to downplay the idea that their courting of individual EU states was in any way intended to undermine EU unity. On the contrary, Li stressed that any weakening of Europe would also be bad for China.

The other thing that made the summit notable this year was the lack of any grand announcements or ambitious new projects. Most observers saw the calming rhetoric on the need for a strong EU and lack of new project announcements on the part of Chinese officials as an attempt to prevent any friction ahead of the much more important EU-China Summit during the second half of July. EU and Chinese officials appear keen to present a united front in an effort to resist US President Donald Trump's protectionist trade policies.

Leaders in front of the Arcades du Cinquantenaire at the 2018 NATO Summit on July 11 in Brussels



Following the London Summit and the 16+1 Sofia Summit, followers of the region shifted their attention to the **NATO Summit** in Brussels, held July 11–12. By all accounts, the Summit was a tense and ill-tempered affair, with US President Donald Trump's bravado leaving European allies bewildered and angry at times, so much so that many observers are wondering about the

future of NATO. Yet for the countries of the Balkans, there was some good news. After a long decade of waiting, Macedonia finally received an invitation to join the military alliance – the decision came 10 years after Greece vetoed the planned invitation to Macedonia at the 2008 Bucharest Summit. While Macedonia has been invited to begin accession talks with NATO, its eventual membership is subject to the ratification of the name deal with Greece, which would see the country accede as the Republic of North Macedonia. Aside from the invitation to Macedonia, in their final statement from the Summit, NATO leaders called on Russia to withdraw its troops from the territories of Georgia, Moldova and Ukraine, in which its troops are stationed – in various capacities and guises – across a number of breakaway regions. The Alliance's opposition to Russia's annexation of Crimea was once again condemned, reiterating that NATO would not recognize this move.

HISTORY IN THE MAKING

Most did not quite believe that it could actually happen, yet on June 12 **Greece** and **Macedonia** announced that they had reached a historic compromise regarding their several-decades long dispute over Macedonia's name. Under the deal, Athens and Skopje agreed that Macedonia would, from now on, use the composite name 'Republic of North Macedonia', both in bilateral relations with Greece and with other countries which had already recognized it. Greece accepted that the term 'Macedonian' would remain the name of the language used in the Republic of North Macedonia, while the identity of its citizens would also be Macedonian.

The deal was formally signed on June 17, yet there are still a number of hurdles that need to be surpassed before it fully comes into effect. A staggered ratification process now lies on the road ahead. On June 20, the Macedonian Parliament ratified the name deal, yet President Gjorge Ivanov refused to sign it. Consequently, Parliament adopted the deal for a second time on July 5, with the President now obliged to sign it. Preparations are under way for a referendum to approve the name deal in Macedonia, which is likely to be held in the second half of September or early October. Only then will the Mace-

donian Parliament go ahead with changing the country's constitution to reflect the changed name.

For its part, following the initial ratification of the deal in the Macedonian Parliament, Athens wrote to the European Commission and NATO informing them that it was withdrawing its objections to Macedonia's membership of these respective organizations. Once Macedonia completes its various ratification steps, it will then be the turn of the Greek Parliament to ratify the deal. If all goes according to plan, the entire agreement could be ratified and set in stone by the end of the year, yet plenty of potential for upsets remains on both the Macedonian and Greek sides.

Macedonian Prime Minister Zoran Zaev (r) attends a parliamentary session on name dispute between Greece and Macedonia on June 20, 2018



MIGRANTS

Despite the fact that the numbers of refugees and migrants heading towards the EU across the Balkans remains far below the numbers seen during 2015, the 'migration issue' is still unsettling nerves in much of the region and within the EU itself, which is seeing more substantial flows coming across the Mediterranean. During June and July, many officials and ordinary citizens became agitated over talk that the EU might establish 'disembarkation platforms' in the region for migrants and refugees heading towards the EU, where their asylum applications would be processed. So far, Brussels has denied that any such plans are imminent, yet many in the region remain jittery about any mention of such camps.

While the numbers of migrants coming through the Balkans remains modest, it is rising compared to the previous years, forcing governments to consider more active measures to stem their movement. According to some figures, from January to the end of May this year, Albania, Bosnia and Montenegro registered 6,700 new migrants – this is compared to 2,600 registered during the whole of 2017 in these three countries. In June, media reported that **Montenegro** would seek the assistance of FRONTEX, the EU border control agency, in an attempt to stem the flow of migrants coming from Albania. The authorities in Podgorica were reportedly also considering erecting a fence along a stretch of the border with Albania; Hungary was said to be considering offering its assistance.

Yet it is **Bosnia** which seems to be struggling with how to deal with the influx of refugees and migrants the most. Again, the problem is not so much the sheer number of refugees and migrants entering the country as the evident inability of Bosnian politicians and the different levels of government to agree on any kind of coherent plan for how to handle and accommodate the refugees entering the country. The EU has offered support for establishing a new migrant center, providing Bosnian officials can agree on where it will be located. Plans to deploy additional border police on the border with Bosnia are unlikely to achieve anything more than a modest dent in the numbers entering the country.

REMEMBERING THE PAST

The summer months bring with them many painful anniversaries and commemorations across the region. In **Bosnia**, the annual Srebrenica genocide commemoration was held on July 11, honoring the estimated 7,000 victims of the massacre in 1995. The bodies of 35 victims were buried at the Potocari Memorial Centre, among them three minors and a pregnant woman. Prior to their return to Srebrenica, the citizens of Sarajevo laid flowers and wreaths on a truck carrying their remains. To date, 45 people have been sentenced to 699 years in prison for the war crimes committed in Srebrenica, either before the Hague Tribunal or local Bosnian courts.

Tensions are also likely to rise between **Croatia** and **Serbia** in early August. Croatia will mark what it sees as the successful liberation of territories held by separatist rebel Serbs in the Krajina on August 4 and 5. By contrast, Serbia, Bosnia's Republika Srpska entity and most Croatian Serbs will mark what they remember as the tragedy of their expulsion from their homes in Croatia. Doubtless, as in past years, the anniversary will be used by politicians on both sides to whip up nationalist tensions.

ELECTIONS

Important electoral contests were held in **Moldova**, **Montenegro**, **Slovenia** and **Turkey** during the previous two months.

Without doubt, it was the **Turkish** Presidential and Parliamentary elections which gained the most attention, both within the region and internationally. Originally due in November 2019, in April this year President Recep Tayyip Erdogan announced that they would be brought forward and held on June 24. The elections were particularly important as, in line with the recently adopted constitutional amendments, the new Presidential system of government was to come into being in their aftermath. Moreover, pre-election polls suggested that the outcome of the elections was highly uncertain, certainly more unpredictable than in the recent past. Despite speculation that the presidential contest might go to a second round, or that the ruling Justice and Development Party (AKP) might lose its Parliamentary majority, in the end Erdogan and his party notched up another decisive victory over their opponents. Winning 52.6% of the votes cast in the presidential election, Erdogan secured a decisive first round victory and re-election to the Presidency. His main challenger, Muharrem Ince of the Republican People's Party (CHP) trailed with 30.6% of the votes cast. In the Parliamentary elections, the People's Alliance (a coalition of the AKP and Nationalist People's Party – MHP) won a comfortable majority of 344 seats in the 600 seat Parliament. The AKP will hold 195 of these seats. Despite their victory, the AKP and MHP won 13 seats less than in the previous Parliament. While the opposition failed to remove the AKP's majority, it still performed

well. The Nation Alliance, centered around the CHP, increased its number of seats by 55 to 189 MPs, while the People's Democratic Party (HDP) won 67 seats (an increase of 8 seats compared to the previous Parliament).

Turkish President Recep Tayyip Erdogan during his inauguration ceremony at the Presidential Complex in Ankara on July 9, 2018



Slovenia held Parliamentary elections a few weeks earlier than Turkey, on June 3. The relative winner of the Parliamentary election was the center-right Slovenian Democratic Party (SDS), which won 24.9% of the votes cast and 25 seats in the 90 seat Parliament. By contrast, the Modern Centre Party of outgoing Prime Minister Miro Cerar suffered a heavy defeat, winning only 10 seats, down from the 36 it won in the previous election. Despite its relative victory, it seems highly unlikely that the SDS will be able to find the necessary coalition partners to form a government. Instead, the newcomer List of Marijan Sarec, with 13 seats, seems to be in the best position to gather a coalition of center and center-left parties into a new government. The possibility that no government is formed and another election is held in the autumn should not be excluded either however.

After the Presidential elections earlier in the year, **Montenegro** held local elections in 11 municipalities on May 20. Despite credible expectations that the opposition could make gains, particularly in the capital Podgorica where it was widely thought to be on the brink of unseating the ruling Democratic Party of Socialists (DPS), the opposition suffered a heavy defeat. In the

end, the DPS was the absolute or relative victor in 10 of the 11 electoral contests. The formerly leading opposition Democratic Front hemorrhaged votes across the country. In the capital Podgorica, the DPS also secured a majority.

Meanwhile, a political crisis in the **Moldovan** capital appears to be in full swing, sparked by the decision of a local court to void the results of the mayoral elections held in Chisinau at the end of May and beginning of June. The official reason for voiding the mayoral election is that both the leading candidates called on their voters to turn out and vote in the second-round run off on June 3 via social media on election day itself. The decision of the local court – handed down on June 19 – was upheld by an appeals court on June 21 and the Supreme Court of the country on June 25. Since the first instance decision, thousands of citizens have been protesting in the streets of the capital against the decision to void the election result.

EU ACCESSION

At their regular summit from June 28–29, EU leaders gave a very conditional nod to the opening of accession negotiations with Albania and Macedonia in the summer of 2019. Many had expected that accession negotiations with both countries would, in fact, be opened much sooner, as a sign of support for the judicial reforms implemented by Albania and the historic name compromise reached between Greece and Macedonia. However, a cold shower was poured on such hopes by French President Emmanuel Macron, who appeared to be the main driving force behind the decision to delay the opening of accession negotiations well into 2019. Macron appeared to be concerned about the impact of any more rapid decisions regarding enlargement on how French voters would cast their votes in upcoming European Parliamentary elections.

Other countries in the Balkans also got some small rewards for their reform efforts. EU leaders approved the opening of two additional negotiating chapters with Serbia – Chapters 13 (Fisheries) and 33 (Financial and Budgetary Provisions) – although Serbian leaders hoped that a total of five new chapters could be opened. Slow progress in rule of law reforms and nego-

tiations on normalizing relations with Kosovo were seen as the main reason behind the small number of opened negotiating chapters. In total, Serbia has opened 14 out of 35 negotiating chapters and closed two. Meanwhile, Montenegro opened negotiating Chapter 17 (Economic and Monetary Policy), bringing the total number of opened chapter to 31 out of 33, of which three have been closed.

Short Commentaries

Dušan Reljić, head of the Brussels office of SWP, the German Institute for International and Security Affairs in Berlin. His analytical work focuses on southeast Europe, EU external relations, and international security issues.

One of the least ambiguous findings in the July Balkan Barometer 2018, the annual public opinion commissioned by the Regional cooperation council (RCC) in Sarajevo, pertains to inequality: the vast majority of respondents in the South-east Europe region – 83 % – describe the gap between the rich and the poor as widening in their economies, with numbers particularly high in Bosnia-Herzegovina (92 %). Those respondents who rate their social standing as above average are significantly less likely to perceive the gap between the poor and the rich as widening (20 % feel the gap is not growing), as opposed to those who rate their social status as below the average (94 % feel the gap is growing).

Evidently, government members in the region belong to the first group – who feel that the gap is not widening – or they do not care. Because governments in the region have neglected economic inequality in their socioeconomic reforms. Labor markets, deregulations policies, along with the erosion of social safety nets, have been detrimental to equality – this is the just as unambiguous finding in the “Inequality in Southeast Europe” study, recently published by the Friedrich-Ebert-Stiftung Dialogue in Southeast Europe Programme. This is a succinct analysis showing that levels of inequality in the region are among the highest in Europe. It provides evidence that the economic and social policies in Southeast Europe were focused on how to improve competitiveness and attract foreign investments while generally disregarding measures aimed to decrease inequality, for instance

Dušan Reljić, Head of the Brussels Office of SWP



through collective bargaining mechanisms, adequate legal protection of workers and basic social security in case of unemployment.

What could be the result of the persistence of inequality in the region? Widespread poverty in conjunction with low economic growth, huge youth unemployment, mass outward migration open inroads on democracy by nationalist and populist demagogues. The FES research offers practicable policy recommendations how to roll back inequality and foster more inclusive growth which would improve the quality of life for the poorer part of the population in SEE – which is the majority of the populace. Definitely, EU policy makers dealing with SEE (who usually provide the blue-print for policies in the region) and their counterparts at the receiving ends in SEE should heed the advice provided in the FES study.

Short Commentaries

Tanja Fajon, Slovenian politician and Member of the European Parliament (EP) since 2009. She is a vice-president of the Social Democrats in Slovenia, part of the Party of European Socialists, as well as vice-chair of the Progressive Alliance of Socialists and democrats in the EP in charge of migration and communications. Member of Committee on Civil Liberties, Justice and Home Affairs and substitute member in Committee on Foreign Affairs, she focuses mainly on migration and asylum policy, Western Balkans, fight against hate speech and fake news and communication policy.

Inequality is becoming an ever more pressing issue on a global scale, having particularly detrimental consequences for socially and economically less stable countries, such as those in the Western Balkans. Once part of systems which were built upon the notion of equality, Western Balkan states find it difficult to cope with a new world order, where market forces rein and inequality comes as an inevitable outcome. The EU enlargement process is vastly seen as a promise for improved economic activity, more and better jobs, higher salaries, and an overall better living standard. But does enlargement policy have enough means for lowering inequality and strengthening social cohesion?

I am afraid we still have to improve the social aspect of enlargement policy in the region. Social cohesion would be an answer to numerous problems the region is facing: lack of jobs, low salaries, and poor coordination of education and labor-related policies, resulting in a massive brain drain of the brightest among the youth. What we need in the Western Balkans is a sustainable social welfare system, a healthy labor market, and a dignified life for pensioners. Grandparents supporting their grandchildren who cannot find decent jobs with their meagre salaries leads to people finding other

Tanja Fajon, Member of the European Parliament



sources of revenue, including in the black and grey economy.

The enlargement strategy for the Western Balkans presented in February promised a revived social dimension of the enlargement policy. But to be able to fully use it, the region will have to make sure that corruption is rooted out and rule of law well cemented. This is what we all shall strive for – in particular leaders of the Western Balkans and civil society, for a healthy system which benefits all needs determined individuals to work for it.

Short Commentaries

Niheer Dasandi, Lecturer in Politics and Development at the University of Birmingham. His research broadly focuses on the politics of developing countries and the international political economy. He is the author of a forthcoming book – *Is Democracy Failing?* – to be published with Thames & Hudson in September 2018. Niheer has a PhD in Political Science from University College London, and has previously worked for the United Nations Development Programme (UNDP) in Bosnia and Herzegovina.

Income inequality in Southeast Europe (SEE) has received relatively little attention compared to other socioeconomic issues. There are perhaps two main reasons for this. First, income inequality in SEE countries has historically been low as a result of socialist rule. In fact, the data presented in the FES report suggest that while income inequality in SEE countries is high compared to some other European countries, it is relatively low by global standards, particularly compared to Latin American and Asian countries. The second reason is because it is widely believed that the region has more important and immediate economic and political issues to tackle, such as economic growth, unemployment, and democratic consolidation.

As the FES report suggests, however, greater attention should be given to the income inequality in SEE countries, particularly as it is on the rise in a number of SEE countries. The view that SEE countries have more pressing economic issues to deal with than income inequality overlooks the close links between inequality and other economic issues. There is growing evidence to suggest, for example, that lower income inequality helps to promote economic growth. As the FES report clearly explains, in SEE countries income inequality is closely linked to labor market access – impacting unemployment, irregular working hours, insecure working conditions, and informal work.

Another issue, which receives less attention in the FES report, is the relationship between in-

Niheer Dasandi, University of Birmingham



come inequality and democracy. High levels of economic inequality can undermine democratic politics by allowing wealthier and more powerful groups to skew policies to their own advantage, leading to greater inequality. While there are multiple causes for the current threat to democracy around the world in the form of rising populism and nationalism – economic inequality has certainly been a major factor. Growing economic inequality has fueled people's sense of dissatisfaction with liberal democracy, which populist leaders have been quick to exploit. This is certainly a crucial issue in the context of SEE, where a legacy of conflict has been the strong influence of nationalist politics in some countries, and where the process of democratic consolidation is still ongoing. Increasing inequality has the potential to seriously disrupt this process.

The Friedrich-Ebert-Stiftung in Southeast Europe

After more than two decades of engagement in southeastern Europe, the FES appreciates that the challenges and problems still facing this region can best be resolved through a shared regional framework. Our commitment to advancing our core interests in democratic consolidation, social and economic justice and peace through regional cooperation, has since 2015 been strengthened by establishing an infrastructure to coordinate the FES' regional work out of Sarajevo, Bosnia and Herzegovina: the Regional Dialogue Southeast Europe (Dialogue SOE).

Dialogue SOE provides analysis of shared challenges in the region and develops suitable regional programs and activities in close cooperation with the twelve FES country offices across Southeast Europe. Furthermore, we integrate our regional work into joint initiatives with our colleagues in Berlin and Brussels. We aim to inform and be informed by the efforts of both local and international organizations in order to further our work in southeastern Europe as effectively as possible.

Our regional initiatives are advanced through three broad working lines:

- Social Democratic Politics and Values
- Social and Economic Justice
- Progressive Peace Policy

Our website provides information about individual projects within each of these working lines, past events, and future initiatives: <http://www.fes-southeasteurope.org>

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