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The Impact of Economic Crisis
and Foreign Debt on Human Rights

VII. Violent Transitions: Economic Restructuring,
the Financial Crisis and Human Insecurity in the
Western Balkans

Violent Transitions: Economic Restructuring, the Financial Crisis and Human Insecurity in the Western Balkans

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This report discusses key human rights challenges that have emerged in the Western Balkans during its 'transition' from socialism to capitalism and in the aftermath of the Global Financial crisis of 2008. The region, devastated by ethnic and nationalist conflicts in the 1990s, also experienced market-oriented economic restructuring, under pressure from donors and in order to meet the criteria for European accession. The report shows that while the discourse of transition emphasized political democracy, the rule of law and human rights, priority was given to controlling fiscal expenditure and privatization, rationalized as necessary to promote a competitive market economy. In this process, social policy was reframed along market-efficiency principles and threatened existing social entitlements and constitutional rights, particularly in the field of employment, health care, housing, old age and social security. Human insecurity with regard to these essential services were experienced by many but particularly by the more marginalized groups in society. These insecurities only exacerbated with the global financial crisis of 2008, as the region was particularly vulnerable through experiencing a high degree of Euroisation with many local currencies being linked/tied to the Euro. The subsequent credit crunch from Western lending institutions as well as falling income from exports forced local governments to further reduce fiscal deficits and commercialize social services, while developing so-called 'activation' policies to 'encourage' people to take up employment. Such policies also triggered protest marches and demonstrations by individuals, civil society groups and trade unions against governments and their international and local supporters. In many ways, as argued in this report, the process of transition reflected and incorporated violence, expressed not just as direct bodily harm, but also in the destruction of livelihoods, the denial of basic human rights and in struggles for social justice.

The argument is developed in the following order:

- Dissolution of Yugoslavia – Western Balkans
- International Actors linking Democracy and the ‘Free Market’
- Rights and Reforms
- The 2007-2008 Global Financial Crisis and Its Aftermath
- Protests and Alternative Discourses
- Concluding Reflections: Violence in Transition

Dissolution of Yugoslavia – Western Balkans

While the Balkan Peninsula is situated in Southeast Europe, the term ‘Western Balkans’ is a more recent political construct referring to the countries that formed part of the former multi-ethnic Socialist Federal Republic of Yugoslavia - Bosnia and Herzegovina, Croatia, the Republic of Macedonia, Montenegro, Serbia and Kosovo and including Albania. In 1946, after the end of the Second World War, the kingdom of Yugoslavia became the Federal People’s Republic of Yugoslavia and in 1963, it was renamed the Socialist Federal Republic of Yugoslavia constituting six republics with the two autonomous provinces (Vojvodina and Kosovo). The multinational state of Yugoslavia contained also a variety of ethnic groups residing in different national territories. According to the Yugoslav Census of 1971, Serbs constituted nearly 40% of the population in 1971, followed by the Croats (22%), Muslims/Bosniaks (8%) Slovenes (8%) Albanians (6%) and Macedonians (5%).¹

Under the leadership of Josip Broz Tito, who became the Prime Minister (1944-63) and subsequently the President for Life, Yugoslavia defied the hegemony of the Soviet Union, and developed close ties with the Non-Aligned Movement. It evolved its own brand of ‘market’ socialism through adopting more open economic policies, and experimenting with self-management and socialist participatory management schemes in

¹ For a more detailed analysis of ethnic and religious fractionalization in Yugoslavia see Kalyvas and Sambanis, 2005, 201-203.

enterprises and mutual insurance schemes, and local social work center. Yugoslavia also became a member of the World Bank since 1972, and had entered into several trade agreements with the European Union. It also took advantage of the relative cheap loans available in the Western institutions to finance the modernization of its economy. But Yugoslavia was hit badly by the hike in the oil prices in the 1970s, and the rising costs of servicing public debt. From a total foreign debt of 3,438 million dollars in 1971, Yugoslavia's total foreign debt had risen to 20,646 million dollars in 1981 (Dyker, 2011, 120). But the richer republics (Croatia and Slovenia) disagreed with transferring hard currency that stemmed from the flourishing tourist economy in the Adriatic coast, and eventually embarked on the pathway of economic nationalism and independence, moves that were countered by the Yugoslavian army supported by Serbia and Macedonia (Petak, 2003, 5-6, Sell, 2002, 23). Tito decentralized the Yugoslav constitution of 1974 to contain ethnic dissatisfaction but ensured control by mandating that all major decisions – either of a legislative or executive nature – had to be agreed upon unanimously by all the six Yugoslav republics and the two autonomous provinces. Decentralization was further stimulated by the 1976 Law on Associated Labor which broke up factories, allowed enterprise leaders to make key decisions. (Sell 2002, 23-24).

In the wake of Tito's death in 1980, ethnic and nationalist sentiments, fueled to some extent by the rising unemployment and indebtedness, were articulated in calls for independence in different parts of the Federation. These demands were strongly opposed to by the Serbs, who were living in the different republics, and in 1981, the Yugoslav army was involved in crushing the demand by ethnic Albanians for independent status. Subsequently, Serb nationalism spread under Slobodan Milosevic, who participated in the Krajger Commission which sought to reform the 1974 Constitution and in 1984 became President of the League of Communists in Belgrade. As noted by his biographer "Milosevic discovered how the raw, emotive force of nationalism could be used to mobilize popular energy in a way long lost to Yugoslavia's official ideology of self-management socialism (Sell 2002, 3). He became the President of Serbia in 1989, a position he held till 1997 and subsequently was the President of the Federal Republic of Yugoslavia till 2000.

Shortly after his rise to power, Milosevic was active in promoting Serb nationalism appealing to the minority Serbian population in several republics including Croatia, Bosnia and Herzegovina and Kosovo. Kosovo was stripped off its autonomous status in 1990, and Yugoslav military units were sent to take control of Kosovo, which had an Albanian majority. Kosovars responded with an unrecognized referendum and voted for secession from Serbia and Yugoslavia. The subsequent period witnessed increased ethnic and nationalist conflicts– the so-called Yugoslav wars of the 1990s – that led to the devastation of infrastructure, civil unrest, refugee migration and demands for independence from different groups and states. In 1991 conflicts erupted in Slovenia and Croatia, when they declared independence. In April 1992 Serbia and Montenegro formed the Federal Republic of Yugoslavia under the leadership of Slobodan Milosevic, although this new status was not recognized as the successor to former Yugoslavia by the United States. In 1992 Bosnia and Herzegovina declared independence. In spite of the Brioni Agreement of 1991 brokered by the European Union to enforce a cease-fire in Slovenia and enable negotiations on the future of Yugoslavia, and despite the setting up in 1992 of the United Nations Protection Force (UNPROFOR) to promote peace, security and a settlement of the Yugoslav ‘crisis’ conflicts continued in Bosnia and Herzegovina (1992-1995), and Kosovo (1998-99), emblems of which have been the massacres in Tuzla and Srebrenica committed by Serbian nationalist paramilitaries.² The brutality of these killings of civilians, the widespread use of rape and summary executions, the displacement of people, the destruction of infrastructure reflected a “level and scope of torture and brutality in Europe was unmatched since World War II” (Wilmer 1998:10).

The Dayton Peace Agreement of 1995 provided a General Framework Agreement for Peace in Bosnia and Herzegovina, establishing the State of Bosnia i Herzegovina as federation of Bosnia and Herzegovina with Republica Srbska. The Organization for Security and Co-operation in Europe (OSCE) retained an observer status and was charged with organizing elections in 1996. But this agreement did not stop the interventions by the Yugoslav (Serb) military forces under the leadership of Slobodan Milosevic. In 1998

² While there are many books and accounts of the ethnic conflicts in Yugoslavia a useful summary is provided in Wilmer (1998, 90-113)

Serb paramilitaries invaded Kosovo and engaged in war with Kosovo Liberation Army resulting in what has been viewed as part of the ‘ethnic cleansing’ of Kosovar Muslim Albanians, with both sides engaged in documented violations of human rights and the resulting crisis of migration of refugees from the region. The conflict was brought to an end by NATO intervention, and following UN Council Resolution 1244, Kosovo was put under UN administration (UNMIK), along with the European Union Rule of Law Mission in Kosovo (EULEX) operating since 2008 with a current mandate extended to 2016. The Yugoslav Republic of Macedonia had also been exposed to violent conflict between Macedonian security forces and the National Liberation Army of ethnic Albanians. The conflict was resolved by the Ohrid Framework Agreement, which extended rights to ethnic Albanians, and also ended the decade of wars and conflicts over recognition and territory.

Given the widespread nature of the conflict in the region, the powerful role of the European Union in mediating the peace talks should not be underestimated, and this continued in post-conflict stabilization and reconstruction processes. The European Agency for Reconstruction was established in 2000 to manage the post-conflict development in Kosovo, and its mandate was extended to Serbia and Montenegro in late 2000, and in 2002 to the Yugoslav Republic of Macedonia and to Montenegro. As noted by its Director, Richard Zink in 2007, by the setting up of the Agency, the European Union “demonstrated its determination to respond to the needs of the Balkans: to rebuild after the damage caused by conflict, to stabilize the region, and to support governments with their democratic reforms” (European Agency for Reconstruction 2000).

The Former Republic of Yugoslavia lasted until 2003, when the country was renamed as the State Union of Serbia and Montenegro. In 2006 a national referendum, followed by the Declaration of Independence of Montenegro, led to a peaceful separation from Serbia. In 2008 Kosovo declared independence from Serbia, an action that was recognized by over 100 countries, although the official status remained unresolved.

International Actors linking Democracy and the 'Free Market'

The breakup of the Soviet Union in 1991 and the transition from socialism to capitalism have often been portrayed in the Western media as a move from authoritarianism, poverty and squalor to affluence, peace and liberty. Charkiewiz has argued that the shift from 'plan' to 'market' was depicted as a redemption from the pathologies of communism (2009, 13). Others such as Boyer have taken these ideas further stating that the post-communist subject, within this framework, was represented as one "whose past trauma casts into doubt her/his capacity to function effectively as a historical actor in the future" (2010, 195). As such, the transition discourse also validated the presence and need for Western rationality and economic management in moving these countries in the 'correct' direction. According to Borcilla, "the U.S. conception of saving the world for history... reconfigured the Cold War paradigm of saving the world from communism to that of saving the world from humanitarian atrocities" (Borcilla 2015, 189). From this perspective, the Balkans became one of post-communist disaster sites that demanded international military, economic and bio-political interventions to move towards economic prosperity, political democracy and individual freedom.

These ideas permeated the politics of the transition process. One of the earliest and strongest supporters was the United States, which provided not only finance and loans for development, but also imposed its own vision and conditions for development. In 1989, the United States Congress, under the Presidency of George Bush, passed the Support for Eastern European Development (SEED) Act providing funds "to promote democratic and free market transitions in the former communist countries of Central and Eastern Europe, enabling them to overcome their past and become reliable, productive members of the Euro-Atlantic community of Western democracies" (US Department of State 2004). The SEED fund was operated by the USAID but not covered by development aid regulations, allowing the Agency speedy processing of grants and contracts for expertise viewed as necessary to support offices of prime-ministers and ministries of finance. USAID projects in the Balkans focused on post-conflict resolution, parliamentary elections, and civil society support, and heavily engaged in macroeconomic reforms, in particular in capital

market creation, pension reforms, privatization, in trade reforms preparing countries for WTO accession, as well as in energy, infrastructure, and agriculture (USAID 2013). Regarding human rights, USAID work in the Balkans was focused on political rights (election processes). In the U.S. State Department & USAID Joint Strategic Goals Framework human rights were defined as a means to “protect core U.S. interests by advancing democracy, human rights and strengthening civil society” (US State Dept. Strategic Plan 2014).

The Conference on Security and Cooperation in Europe (conducted on regular basis since 1973, and institutionalized as OSCE in 1994) also provided a structure for policy development towards countries in Eastern Europe. At a meeting in 1990, the Head of State and Government of the Conference for Security and Co-operation in Europe, adopted the *Charter of Paris for a New Europe*, announcing that the “era of confrontation and division of Europe has ended” and that Europe was liberating itself from the legacy of the past” and was opening a “new era of democracy, peace and unity” based on “steadfast commitment to democracy based on human rights and fundamental freedoms; prosperity through economic liberty and social justice; and equal security for all” (OSCE 1990). In the same year the Bonn Conference on Economic Cooperation in Europe (conducted in the framework of CSCE) outlined an economic program for transition to market economy, including principles that linked multi-party democracy and rule of law with free market economy, and established the free market economic framework for post-Communist Europe. For the first time, the CSCE conference was addressed to and included business representatives (CSCE Bonn Conference). The two CSCE documents of 1990, the Paris Declaration and the declaration of the Bonn conference on economic cooperation, provided a framework for the enlargement and accession of the former socialist block countries to the European Union. The project of enlargement was encouraged and supported by the European Round Table of Industrialists – a group of CEOs of the biggest Europe-based multinational corporations that were influential in shaping the Single Market, European Union and Euro treaties, and in developing a vision of Europe (from Atlantic to Ural) as the world’s biggest economic power (Monod et al, 1991, 7, 9, 32; Cowles 1995, 521-522, ERT 2010, 6, 34, 8, 83).

The European Union (EU) also supported the transition process, opening up the possibility for the Western Balkans to become full members. The criteria for all candidate and potential candidates had been agreed upon at the European Council at the Copenhagen Summit of 1993, including the “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union” (European Council 1993). There were also regional and country-specific Stabilization and Association Process (SAP) from 1997 onwards related to the Western Balkans, including trade concessions and financial assistance if the countries met relevant conditions. The European Commission also monitored progress, identified weaknesses and required technical adaptations, introduced criteria and priorities, and directed EU funds towards relevant projects (Anastasakis and Bechev 2003, 7-8). EU conditionality towards the Balkans was in effect “a multi-dimensional instrument geared towards reconciliation, reconstruction and reform” that was “regional, sub-regional and country-specific” and at the same time “economic, political, social and security-related” (Anastasakis and Bechev, 2003, 8).

The “unequivocal support” support of the European Union for full membership of the Western Balkans was re-affirmed at the EU-Western Balkans Summit held in Thessaloniki in 2003, which also stated that the Stabilization and Association process (SAP) would form the framework for the accession (European Commission, 2003). The cessation of conflict also allowed for the implementation of more structural reforms in the Western Balkans in line with creating a free market economy, including opening up their economies to global trade, taking measures to promote private enterprise and export production and removing restrictive regulations (Murgasova et al 2015, 9). There was increasing recognition by the European Union of the economic and political benefits of the transition countries, noting in 2005 that enlargement was “one of the EU's most powerful policy tools” serving “EU's strategic interests in stability, security and conflict prevention” while helping to “increase prosperity and growth opportunities” as well as

securing “vital transport and energy routes” (European Commission 2007). The document ‘Enlargement Strategy and Main Challenges 2005-2006’ also indicated clear benchmarks in the realm of legislation, administration and political spheres, and dialogue on economic reforms was incorporated into the negotiation process. The Treaty of Lisbon, which was signed in 2007 and came into force in 2009, amended the Maastricht Treaty of 1993. The strengthening of EU economic interests was taken further in the 2012 and 2013 revisions of enlargement strategies, which prioritized rule of law while defining it as the process which “supports the business environment, providing legal certainty for economic operators and stimulating investment, jobs and growth” while emphasizing the need to combat organized crime and corruption” (European Commission (2012).

In response, the countries of the Western Balkans have undertaken reforms to meet the required criteria for full membership of the European Union. So far the success has been limited. Croatia joined the European Union in July 2013, while the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Albania remain candidate countries, with Bosnia and Herzegovina and Kosovo having the status of potential candidates.

Rights and Reforms

In principle, national governments and intergovernmental organizations are obliged to implement UN and European human rights norms embedded in the Universal Declaration on Human Rights, (which inter alia include social rights as well as the right to a standard of living for health and wellbeing in relation to food, housing, and necessary social security protection). Other relevant UN instruments include the International Covenant on Economic, Social and Cultural Rights (ICESCR, 1976) elaborated in the Maastricht Guidelines on Violations of Economic, Social and Cultural Rights and the Limburg Principles on the Implementation of the International Covenant on Economic, Social and Cultural Rights (1986). The European human rights instruments include the European Social Charter adopted in 1961 as well as the European Charter of Fundamental Rights and Freedoms, which came into force under the Treaty of Lisbon in 2009 and legally

bound the institutions and national governments of the European Union to uphold the protection of fundamental rights including social rights which were viewed as necessary to enjoy civil and political rights.

It has been argued by some that human rights discourse came to Eastern Europe prior to “market fundamentalism” (Nolan 2014, 9). There was a spectrum of social rights that were ensured under the socialist systems, such as the right to education, social security and health. Human rights were also emphasized in the Accession (Copenhagen) criteria of 1993 which stressed the importance of democracy, the rule of law and human rights (Europa EU 2013). In 1999 the European Union introduced a Stability Pact for Regional Cooperation in Southeast Europe as well as Stabilization and Association Processes that gave attention to human rights and democratization. These ideas were further reinforced in the European Union Summit on the Western Balkans in Thessaloniki in June 2003. But the focus in these was on political and civil rights, emphasized within the framework of democracy and there was less attention given to social rights.

The Copenhagen criteria also included the requirement that countries seeking accession have “a functioning market economy and the capacity to cope with competition and market forces in the EU” (European Commission 1993). In the post-socialist context, this meant that the nations wanting to be part of the European Union had to restructure their economies along more market-efficiency principles. By the 1990s, market-oriented reforms had been initiated in the region, in cooperation with the World Bank, the IMF and foreign advisors such as Jeffrey Sachs of Harvard University, the latter being quoted that ‘to clean up the shambles left by communist mismanagement’ the countries of Eastern Europe had to move towards a ‘western-style market economy’ (The Economist 1990, 21). In 1992 IMF established the Joint Vienna Institute (JVI) by six international organizations and the Austrian Authorities (Oesterreichische National Bank and Ministry of Finance), with the leading role played by the IMF to provide training to officials and managers from former centrally planned economies to assist them with the transition to market-based systems.

By 1995 almost all countries in the Western Balkans had stabilization programs and stand-by agreements aiming at (i) macroeconomic stabilization, (ii) price liberalization and current account convertibility, (iii) enterprise reform (privatization), (iv) creation and strengthening of social safety nets, and (v) development of institutional and legal frameworks for a market economy. The World Bank Group also expanded its work in post-socialist economies and set up a new regional department on Europe and Central Asia in 1995. It conducted its 'country diagnostic work and provided advice to governments on macro-economic reforms, and privatization, and public sector reforms, and carried out projects related to energy and mining sector restructuring, environmental protection. From 2000, the European Bank for Reconstruction and Development became involved in the Stability Pact supporting private investment and commercial approaches to financing infrastructure and improving the institutional capacity of the financial sector (Welfens 2001, 55).

A major area of international intervention in the Western Balkans was in social policy, the latter being also influenced by changes in the European Union which, since the 1980s, had witnessed increased resort to commercialization of pensions, education and healthcare. Applying market principles to these provisions implied a reframing of social policy, viewing it rather as "a productive factor contributing to economic growth and development", with the use of terms "activation" and "joined up policy making and partnership" being used to suggest the inclusion of the people in solving social problems" (Lendvai 2007, 32). Critics of these policies have suggested that this reframing of social policy was "more a political act and discourse to subordinate social policy to economic growth and competitiveness" (ibid). In the same vein, Böröcz has argued that "...the essence of European Union 's strategy vis a vis the Central and Eastern European applicants is the integration without inclusion, participation in production systems and appendance to the consumption market of EU corporations without attendant political, economic, social and cultural rights conferred by the European citizenship (2001, 108).

There were several international actors involved in the implementation of social sector

reforms in the Western Balkans, including the IMF, World Bank, the European Union as well as several UN agencies (e.g. ILO, UNICEF, and UNDP). In 1992, the United Nations Development Fund UNDP set up a Regional Directorate for Europe and the Commonwealth of Independent States (CIS) and in 1993 ILO established a country program on decent work in cooperation with Council of Europe and the Commission conducted country peer reviews of employment policies in the Balkan countries, so called Bucharest process, as well as analyzed options in pension reforms (Hirose 2011). The note on pension reforms in post-socialist economies by the Directorate General Economic and Financial Affairs in 1996 identified pensions and development of market based social policy as one of the key challenges of the transition reforms (European Commission 1996, 1). Since the early 1990s the World Bank has been continuously engaged in promoting, designing and monitoring implementation of pension and healthcare reforms in the Balkans³, aiming at enhancing efficiency and to resolve the disease burden in the framework of fiscal space (Bredenkamp et al, 2008, 158). To enable health care reforms, the World Bank projects introduced electronic management systems as well as costing procedures in health care. The reforms privatized primary health care, shifted the ownership of hospitals from the local communes (of the former Yugoslavia) to the state, and introduced systems of organization of health care based on a private enterprise model (“marketization”). The World Bank education strategy for Europe and Central Asia had teams of experts set up social safety nets and means-tested benefits in place of universal entitlements. According to Deacon and Stubbs, these international actors appeared to be “scrambling for position” in social policy development (2007, 6).

These projects and policies resulted in contradictory and competing pressures on the countries as the fiscal surveillance procedures conducted by the Commission and the Council towards the EU member states and the acceding countries⁴ demanded cuts on

³ On health care see projects no (PO87470, PO 90418, PO74908, PO7674 PO78390 and report 32335 at www.worldbank.org/projects, as well as Hirose, 2011; ILO 2009; Bartlett and Xhumari, 2007 on pension reforms.

⁴ Following the commitments of the Union Treaty (The Maastricht Treaty) to achieve and maintain public debt at 60 % of GDP and budget deficit not higher than 3 % the EU Pact on Stability and Growth specified a package of surveillance procedure to achieve the implementation of these commitments, The

public expenditures that affected the availability of funds for welfare expenses.⁵ In these ways, this “crowded arena” in social policy development had “major implications for transparency and ownership with some countries’ social affairs ministries confused and disempowered in these processes” (Deacon *et al* 2009, 290). All together these material and discursive international interventions constituted and co-shaped a parallel network of power that often superseded national governments.

The impact of these reforms was also influenced by the conflicts in the region, which had resulted in not only destruction of infrastructure, but also ethnic distrust within nations and refugee migration. It was not surprising therefore that there was a fall in the GDP per capita in the 1990s which picked up by the end of the 20th century, and after the end of the conflicts. From this period and until the financial crisis, the region experienced, according to Deacon and Stubbs, a “growth paradox”. While real GDP in 2004 in Croatia, Macedonia, Serbia and Bosnia-Herzegovina was lower than in 1989, these countries had experienced positive growth from 2000. Unfortunately however these improvements did not result in increased employment or better conditions of employment while extreme poverty and the number of households just above the poverty line remained a serious problem in the region (Deacon and Stubbs 2007, 14-15). At the same time there was growing inequality within the region as well as with regard to urban and rural areas (Stubbs and Zrinščak 2009, 288-289). This inequality also existed with regard to access to health care facilities and treatments, with more vulnerable groups, such as the unemployed and, the Roma minorities experiencing greater problems on this score (Stubbs and Zrinščak, 2009, 290).

One of the factors that changed the lives of people in the region over the past 25 years was the growth of public and private debt. The countries of the Western Balkans, with the

procedures have been enhanced following the global banking and financial crisis of 2007-08, and in 2014 have been extended to the candidate countries.

⁵ Following the commitments of the Union Treaty (The Maastricht Treaty) to achieve and maintain public debt at 60 % of GDP and budget deficits not higher than at 3%, the EU Pact on Stability and Growth specified a package of surveillance procedures to achieve the implementation of these commitments. The procedures have been enhanced following the global banking and financial crisis of 2007-08, and in 2014 have been extended to the candidate countries.

exception of Albania had already experienced the burden of foreign debt and rising debt servicing costs since the early 1980s. The transition reforms however significantly increased the size of foreign debt, introduced credit to economic and household management, and actually produced indebted women and men, indebted municipalities, and indebted national economies. Between 2000 and 2008 most countries based the relative period of stability and growth on “credit boom enabled by large scale foreign borrowing” (Bartlett & Prica 2012, 11). Lazaratto has suggested that debts could be viewed as a form of “capture”, “predation”, and “extraction machine” on the whole of society and as an instrument of macroeconomic prescription and management, and as mechanism for income redistribution (2011, 29). Following French heterodox economist, André Orléan, Lazaratto has argued that creditor/debtor relations with their in-built asymmetry constituted specific forms of power. The multi-scalar debt economies in the Balkans included dependence of poor households on personal loans, and the emergence of formal and black debt markets which heightened the vulnerability and violence in the livelihoods of the poor and the underprivileged in society.

The 2007-08 Financial Crisis and Its Aftermath

The turbulence in the global financial system in 2007 and 2008, associated with unsustainable banking practices in supplying loans for housing the United States (the so-called ‘subprime’ lending) and questionable trading practices in the United States had its repercussions on global stock markets, with losses in the value of securities, as well as a slowdown in the world economy. Europe was badly affected and, in turn, the Western Balkans, through its relatively high degree of *de jure* and *de facto* Euroisation whereby countries have either introduced the Euro as official legal tender or where it has assumed significant importance as financial wealth is held in Euros. The Euro had been adopted as the official tender of Montenegro and Kosovo (without the permission of the European Central Bank) while currencies of Bosnia and Herzegovina, Croatia and Macedonia were linked/pegged to the Euro. This process was stimulated not only by the uncertainties of war and inflation in the 1990s but also by the extensive migration to Europe from the

region, as well as the EU integration process with the expectation that, once reaching full membership, the Euro would be the only form of currency.

The economies in Western Balkans did not immediately experience, as their counterparts in the more industrialized countries, the impact of the 2007-8 global financial crisis (Shera 2015, 2-3). Many of the local banks had, however, developed with substantial help and involvement of foreign capital, ingraining a degree of instability into the financial systems (Impavido, et al 2013, 38). The impact was somewhat staggered and felt largely through trade and commercial links with the Eurozone, where lending institutions, in contrast to the previous period, sharply reduced or froze credit to the region to avoid being exposed to more risk. Such practices led, shortly thereafter, to falls in domestic industrial production with the tightening of available credit leading to falls in domestic demand and consumption, as well as the economic problems in key trading partners such as Italy, Germany and other Eurozone countries affecting among others the productive sectors and reflected in the stagnation and declines in the growth of GDP from 2008/2009 onwards (Shera 2015, 2-3). Another important financial crunch was through declines in remittances (Shera 2015, 6). A credit and real estate bubble and decline in export and domestic demand led to the increase in non-performing loans (Murgasova et al 2015, 74). All these aspects affected the fiscal balances of these countries with falling tax revenues and increased budgetary deficits (Murgasova et al 2015, 7). Raising costs of servicing public debt with adjustable interest rates put further pressures and increased budgetary deficits.

Among the important impacts since 2007 include: (a) a slowdown of growth including negative growths in industrial output leading to unemployment and poverty, (b) deflation and fall in domestic demand, (c) a fall in imports, which was not always positive as people and firms were not buying goods as they cannot afford them, (d) a fall in FDI, and (e) a fall in remittances. Since 2009, the region has also relied more on IMF loans. One consequence of the banking and financial crisis was the increased sovereign foreign debt in the region which had already increased from \$30,2 billion in 1989, to \$37,7 bn. in 1999. After the financial crisis foreign debt skyrocketed

from \$99, 4 billion in 2007, to \$230, 5 billion in 2009 and reached \$ 258, 7 billion in 2013.⁶ As a result the region was forced to take IMF stand-by loan agreements, World Bank loans or credits, and non-returning grants from the USAID (USAID 2013, 13) all of which pressured countries to ‘modernize’ social security, labor market and social protection.

There were several measures taken to counter these problems but these remained within the framework of promoting the role of the private sector in development. Of importance in this regard were the 2009 Vienna I and 2012 Vienna II, initiatives of the European Bank for Reconstruction and Development (EBRD) using its “its unique relationships with the private sector as well as governments and its mandate to promote transition and development through the private sector” (EBRD 2012). The intention was to develop a coordinated response to the possibility of sudden withdrawal of funds from parent banks in Europe, as well as to support the coordination of host country authorities to deal with these challenges (Murgasova et al 2015, 81). These Initiatives brought together, among others, the major financial institutions in the region including the IMF, the EBRD, the European Investment Bank, the World Bank, key European institutions (European Commission and the European Central Bank – observer status) and the largest banking groups in the region. According to the EBRD the Vienna Initiatives were successful by retaining the engagement of many foreign banks, keeping the private sector involved in the stabilization process, while informing and supporting home and host countries through sector packages support and loosening monetary policy tools to deal with weak demand while taking care that capital flight would not occur (EBRD 2012).

All these factors affected the labor markets and the social sectors, some examples of which are illustrated below. Between 2008 to 2012, the contraction in the Serbian economy resulted in a drop in employment by 21% (largely in the private sector) which had serious consequences for social sector, the latter being characterized by high public spending greater numbers of people, including its large elderly population, forced to rely

⁶ Authors’ calculations for Western and Eastern Balkans with the exception of Croatia (no data) on the basis of World Bank debt tables <http://datatopics.worldbank.org/debt/>

on social protection schemes (Prca 2013, 164-165). The situation in Serbia was particularly alarming with the country recording an increasing budget deficit since 2008 with a ratio of government debt to GDP of 70.9% of the country's GDP in 2014 (Republic of Serbia 2014, 5). In addition to social protection spending (which includes spending on social assistance and pensions), public sector spending was mainly related to the high employment levels in the state sector and the state administration (Barlett & Uvalic 2013, 164). The high public spending was also adversely connected to the chronic problem of high trade and current account deficits. In October, 2014, the government, before signing the IMF stand-by loan of 1 billion euros, issued a package of economic reform measures. But with the loans came also reforms. The salaries in the public sector and pensions above 25,000 dinars (approximately 200 EUR) were effectively cut from 1 November 2014, reducing the pensions of some 1.5 million citizens while also reducing the number of employed in publicly owned companies and the state administration (BalkanInsight 2015). Similar conditions were placed on the IMF loans to Bosnia and Herzegovina, requiring the country to undertake “[c]omprehensive reforms of rights-based benefits ... which are imperative for both medium-term fiscal sustainability and improving the functioning of labor markets” (IMF 2012, 6).

In the 2000s Croatia embarked on the path of Europeanization, which, until 2008, was accompanied with economic growth and improved social and living standards (Franičević 2013, 75). After a period of growth in the 2000s, a deep recession set in by the second half of 2008 with no clear prospect of coming to an end. The first phase of austerity policies (2009/2010) did not lead to serious cuts in social spending, or to cuts in public sector employment. Yet in the second austerity phase of 2012, due to worsened economic trends and increasing foreign risks, major cuts proved to be much harder to avoid (Sanfey, 2010, 2 in Franicevic, 2013, 75). The recession particularly affected those on temporary contracts, but in time even the permanent workforce was also hit. More men than women were made redundant but this was due to the fact that the latter did not dominate the sectors that had the immediate impact in terms of unemployment. The austerity measures in the public sector would affect women badly. The youth also faced high degrees of unemployment the 15-24 age group's unemployment rate increased from

22% per cent in 2008 to 36% per cent in 2011 (Franicevic 2013, 78) ⁷

As part of making labor markets more flexible to respond to demands for employment Croatia in 2014 changed its labor law – a measure that was criticized by the biggest trade unions in the country. The new changes into the labor system included (a) reducing the costs of hiring and firing, (b) more flexible work time, (c) addressing wage rigidities, (d) rendering working hours more flexible, (e) addressing address wage rigidity, (f) reducing the maximum amount of compensation paid to a wrongfully dismissed worker from the current 18 months to 6 months, (g) relaxing the constraints on dismissal of some categories of protected workers in cases justified by business necessities, (h) increasing work-time flexibility by extending the scope for rescheduling work hours, and (i) raising labor force participation through changing the dates for qualification for pensions

Since the adoption of the law many civil society organizations voiced their discontent with the proposed provision part of the new law. Particularly critical is the “Women’s Front for Labor and Social Rights” in Zagreb who organized protests and focus their work on actions, public meetings and the production of texts related to the critique of the flexibilization of labor legislation in the form of the new labor law. . The Pension Insurance Act which came into force of November 2014 entitled an insured person an old age pension on reaching 65 years of age and having completed 15 years of qualified period. The next 20 years would see further changes by increasing the age for eligibility for pension to 67 years for both women and men (Bolfek, Croatian Law, 2014). Another organization, MATICA, Association of Croatian public sector unions, alleged that the Act No. 143/2012 on Withdrawal of Certain Material Rights of the Employed in Public Services implemented by the Government of Croatia on 20 December 2012, was adopted in violation of the provisions of the European Social Charter. The complaint registered on 24 March 2015, relates to Articles 5 (the right to organize) and 6 (the right to bargain collectively) of the European Social Charter. The organization filed a collective complain to the European Committee of Social Rights, the decision is still pending.

Flexible employment was also promoted in Macedonia through the labor market reform law of 2005 which was based on the rare consensus of key political actors, employer representatives and the unions. This reform introduced flexibility in labor contracts, overtime provisions and employee redundancy, without significantly undermining the legal standing of employees. These policies were strengthened under the government of Nikola Gruevski, who was previously the Minister of Trade and Minister of Finance, and who in 2006 became the Prime Minister. While asserting the need to develop the economy and to improve the quality of life for the people, he believed that unemployment could be solved by “establishing better conditions for doing business” and proceed to make appropriate changes including reducing taxes to a flat low rate of 10% corporate and personal income taxes, and reducing the Value Added Tax in sectors (from 18% to 5% customs duties) and reducing by one-third the contribution of companies to health and pension funds” (Interview, The European Times, 24 March 2015).

While official statistics showed a marginal decline in the official unemployment rate from 2009 onwards, a qualitatively different picture emerges when this is complemented by other sources such as representative sample surveys. In 2008 such a representative survey of households in Macedonia showed that 48% of the respondents were pensioners, students or housewives and did not participate in the labor market, while 66% lived in households where at least one person was unemployed (Gerovska-Mitev 2013,111). It also showed that while 19% of the representative survey experienced a loss of jobs, the majority of these were people with an ethnic Albanian background. In addition, 57% of the survey indicated that they knew at least one person who had suffered a job loss. Those with low education, older participants (50-65) and women were affected most during the crisis (Gerovska-Mitev 2013, 111). Unemployment protection was not satisfactory, and there was widespread lack of knowledge and information about workers’ entitlements to benefits and services (2013, 112). Other rights such as those related to health care and health insurance, as well as education were also negatively affected by the global financial crisis (2013, 115-118).

Crackdowns were also conducted against those registered as unemployed but who were suspected of earning monies on the side increased. Since 2012, the Macedonian Employment Agency also distinguished between active job seekers and passive ones. While active seekers were provided more benefits than the passive ones, they were also bound by tougher rules, including the obligation to go to job interviews, trainings and to regularly register with the Employment Agency. It should be noted that since the introduction of the new methodology, the number of passive job seekers has been constantly falling, whereas the number of active job seekers has risen. The government has presented the drop in passive job-seekers and an increase in active ones as a success of its policy. However, these numbers can be just as well interpreted as pointing towards a rise in *de facto* unemployment. This present situation has several rights-related implications. Among these are the preference for flexibility over security in the labor market, undermining the demand for favorable work conditions for all while attracting foreign investment based on very cost-effectiveness.

Labor market and social policy reforms were also promoted by World Bank interventions that sought to bring about ‘Activation and Smart Safety Nets’ (SSN) for Western Balkans. In their report of 2013, the World Bank Team led by Boryana Gotcheva and Isik-Dikmelik noted the following:

“As countries of the Western Balkans are moving up the income tree, there is a need and political will to finalize the first generation SSN reforms (such as reducing benefit fragmentation, improving targeting and coverage, and establishing unified registries) and to move toward a second generation of SSN reforms. The second generation reforms entail creation of “smart” safety net programs that inter alia focus on decreasing dependency on welfare among those who are able to work and promoting their employability with a combination of incentive-based cash transfers and services. In other words, this process could be described as moving beyond “how to get the right people into safety net programs” and toward “how to ‘activate’ and help beneficiaries graduate from poverty and eventually dependence on transfers” In this context, activation is a combination of policy tools that supports and incentivizes job searching and job finding as a way to increase

productive participation in society and self-sufficiency (2013, 6).

These ‘smart safety nets’ suggest not only a further reduction in access to social entitlements, but also the notion that social protection transfers and behavioral problems of the unemployed were the primary causes of unemployment. There is little consideration of the labor demand issues, the type of work or the rights of workers at work within this framework. In the context of the Balkans the World Bank recommends allocating the unemployed to different profiles by way of a statistical algorithm, as public employment services do not have resources to undertake this on case by case basis.

Such policies as these have been promoted in different parts of the region. At a workshop in Vienna, in 2014, for example, the World Bank placed emphasis on what they have referred to as ‘activation’ policies to groups that are viewed as ‘inactive’ and the unemployed - including social assistance beneficiaries. The idea was to reduce “the multiple barriers to their employment and active inclusion,” and to ensure that demands for protection and prevention of poverty and vulnerability are “met efficiently” (World Bank 2015). The workshop also aimed to give policy makers the “newest international trends...on how to enhance the ‘promotion’ function of the safety net during times wherein increased demand for protection and prevention of poverty and vulnerability need to be met more efficiently under increasing fiscal constraints” (World Bank 2015). In essence, the view is that social transfers and protection were incentives for people to remain unemployed, and more targeted policies were necessary to force them to undertake some form of employment. In this process, the state was withdrawing from social entitlements while promoting markets for social services and social care, the latter often under the discretion of grant receiving NGOs, as long as the NGO, a firm or a denominational organization could succeed on competitive grant markets.

An Issue paper prepared by Nicholas Lusiani, and published by the Council of Europe Commissioner for Human Rights in November 2013 noted that in the aftermath of the 2008 financial crisis many countries had undertaken further austerity measures affecting

the 'whole spectrum of human rights ... from the rights to decent work, an adequate standard of living and social security to access to justice, freedom of expression and the rights to participation, transparency and accountability' (Lusiani 2013, 7). The paper highlighted the disproportionate hardship experienced by vulnerable and marginalized groups, emphasizing that the very capacity of the state to provide basic social welfare and protect the human rights of all was being undermined (Lusiani 2013, 7).

Protests and Alternative Discourses

An important outcome of these changes was the increase in social protests undertaken by groups and civil society organizations in the Balkans against the decline in means of livelihoods and retrogression of social rights. Such struggles became more widespread and even violent after the financial crisis of 2008 when governments were forced to take even more stringent measures to deal with the fiscal problems. A wide variety of individuals and groups were involved in these demonstrations in Croatia, Bosnia and Herzegovina, Serbia, Macedonia, Montenegro and Albania. They students and lecturers, trade unionists, precarious workers, pensioners, anarchists, ecologists, socialists, and others. The common theme was anti-establishment and the demand for basic social rights.

Important protests were undertaken in Croatia in support of the struggles of women workers against mismanagement, privatization and the bankruptcy of the Kamensko factory in the autumn of 2010. In February and March of 2011, thousands of people in Croatia took to the streets protesting unpaid and low wages, and deteriorating work conditions. Women workers from the Kamensko textile factory led the protests against the non-payment of wages and unemployment that resulted through a forced bankruptcy and with claiming that the owners were guilty of corruption by the owners and were in complicity with the government (Salzmann, 2011). But the protests had greater significance than the problems of the Kamensko factory. They reflected a strong resentment amongst ordinary people against the subsidies given by the government to "dubious" companies. Demonstrations took place in front of banks, homes of politicians,

Croatia's catholic church and opposition parties, with many wearing masks of the former Prime Minister Ivo Sanader, who was viewed as “ a symbol of a thoroughly corrupt and rotten system” (Salzmann, 2011).

There were also similar protests in Bosnia and Herzegovina where increasing numbers of people were living below the poverty line. Quoting Household Budget Surveys, Kazaz *et al* indicated that since 2011, nearly a quarter of the population was living below the absolute poverty line, a significant increase from the situation in 2001 where 18.6% (Kazaz, et al 2014, 2). Other expressions of poverty and deprivation included increased numbers of persons roaming in the streets and the “explosive increase in the sale of gold reflecting that all other means had “dried” up (Kazaz, et al 2014, 3). Social protection had also worsened after 2007, with the poorest one-fifth receiving just 17.3% of the total non-contributory transfers in 2011 (Kazaz, et al 2014, 3). In addition it was revealed that allocations intended to support and protect the population against natural disasters such as the floods of May 2014 were “inappropriately allocated” (Kazaz, et al 2014, 3). Different social protests have taken place against political elite, including a wave of protests in June 2013 instigated by the death of a baby who could not obtain the necessary identification number to receive treatment abroad.

Another protest in Bosnia and Herzegovina this time by workers, began in Tuzla in February 2014 against the lack of adequate social security and wage payments in the wake of privatization of factories. Workers clashed with the police but received support from different parts of the civil society across the Federation, including the unemployed, war veterans, youth, pensioners, students and academics (Arsenijević 2014, 45). What was particularly novel was the creation of plenums forming spaces for discussing the demands of those who had been ‘deprived of their rights, unemployed and poor’ (Weber and Bassuener, 2014, 5). The significance of such spaces and deliberations lay also in countering the prevailing identification of politics with corruption, nepotism, and clientelism with people, but rather “assuming responsibility for one’s life with no external guarantees” thus reflecting the “individual and collective refusal to be bribed and coerced into submission and servility” (Arsenijević 2014, 8). But these protests had a broader

impact on society. In a Report from the Democratization Policy Council titled “EU Policies Boomerang: Bosnia and Herzegovina’s Social Unrest, Bodo Weber and Kurt Bassuener have described the ‘social discontent’ – the worst since the 1992-95 war — were essentially anti-establishment and were directly linked to allegations of corruption and mismanagement by the local elite who were supported by Western policy makers.

Concluding Reflections: Violence in Transition

The economic policies imposed on the Western Balkans as donor requirements and necessary to meet the criteria for European accession, promoted a fiscal paradigm that prioritized reduction of budget deficits and liberalization of the flows of money, goods and services, often at the cost of constitutional and human rights. In the process, modernization became the code word for neo-liberalization of social policy, with the introduction of tools from neoclassical economics and business management to social sectors and public administration. The discourse displaced the notion of citizens with entitlements to basic rights to market actors and consumers of services, while compelling them to become investors of themselves. In the process, basic social rights including a decent standard of living, minimal wages and security of work became insecure and aggravated through increased unemployment, flexible work and labor arrangements and in poverty, accompanied by declines in access to health care, housing, old age and disability protection and social assistance. The financial crisis has only worsened human insecurity amongst the more people, and particularly vulnerable groups in society.

Violence has assumed many dimensions in this scenario taking on direct and structural forms through creating and sustaining divisions in opportunities, social protection and social justice, with the more vulnerable experiencing social exclusion, loss of livelihoods, and denied basic social and citizenship rights. In this process, fundamental contradictions have emerged between the neo-liberal policies that were informed by neoclassical economics, and stated commitments to democracy, freedoms and human rights. Violence is also reflected in protests that reflect anger and defiance against the power and complicity of the political and economic elite at local, national and international levels.

The region, having moved away from a history of ethnic conflict and civil war appears to be on the brink of yet another explosion as people challenge the economic, economic and political deprivations of the last two decades.

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