

# Responses of the Serbian Welfare State to the Global Economic Crisis

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*The global financial crisis has revealed serious weaknesses in Serbia's economic and social systems. Short-term measures to mitigate the negative effects of the crisis were only partially successful. In 2010, the welfare state has been marked as one of the priority areas of middle-term state reforms, but so far, there have been no radical cuts, even though it is uncertain, whether this situation is sustainable. The main directions of reform, have been, and will be, directed by deficit budgetary funds (i.e. the need to reduce the share of social transfers within the GDP and their sustainability). Even though accessibility and quality have been declared as equally important reform objectives, effects of reforms point to fiscal constraints as the most important challenge. Austerity measures, characteristic of the Serbian welfare state, during the crisis are not only linked to the crisis, but may be viewed as a part of the declining role of the state after the breakdown of socialism in the 1990s. Therefore, it is sometimes hard to distinguish between the measures as a reaction to the crisis and those contemplated prior to the crisis, because their aims seem rather compatible.*

**Key words:** the crisis, welfare, labour market, social welfare, pensions, health.

## INTRODUCTION

The processes of globalization and integration of world economies favoured the export of the financial and economic crisis from the United States of America to the rest of the world. The crisis itself has become global, but its manifestations, out-

comes, depth and duration have differed significantly across countries. Once again, the “club of the developed” proved to be more resilient to its effects and invested into different packages of stimulating economic measures, in contrast with developing countries. Their already fragile economies have been confronted with these new

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financial and economic shocks and this has resulted in severely weakened coping capabilities. The effects of the crisis have generally ranged from almost universal drop in GDPs, to decreased investments and demand, sharp drops in employment and increased unemployment and poverty levels.

In such a situation, the provision of basic social welfare benefits and opportunities for active participation in society for all, becomes even more important. The role of welfare programmes in the reduction and limitation of economic and social impacts of the crisis cannot be overstated. However, in Serbian society, those automatic stabilizers (Stiglitz, 2009) have been gradually eroding ever since the breakdown of socialism and resulted in the increasing importance of market principles in the welfare system. The current crisis has pointed to severe disadvantages in market-driven approaches, thus presenting sound ground for a new delineation between market and state competencies in the welfare sector. However, it has reduced the financial and administrative capacities for efficient change (Arandarenko et al., 2009). Exit strategies are difficult to design, because of the need to position them at the narrow intersection between costs and benefits and due to the ever changing circumstances during the crisis period.

The main hypothesis of this paper is that the roots of the process of dismantling the welfare state in the national perspective can be traced back to the beginning of the transition in the 1990s. Therefore, the guiding research question is whether it could be described as a continuous and autonomous process, initiated a long time before the current crisis, although somewhat accelerated by the impact of the crisis. The effects of the crisis on the national economy, described in the first section are followed by the presentation of the Government's

anti-crisis measures in the second section. The central part of the paper is the review of changes in the welfare state programmes in the fourth section. Traditional areas of welfare state programmes: labour market and social welfare programmes, pensions and health protection are the focus of the paper. The time period during which the mentioned areas are analyzed is usually the period from the end of 2008 to 2011/2012. However, frequently the period well before the crisis is taken into consideration, due to its relevance for the analysis and explanation of the measures taken during the crisis. In the concluding remarks, the authors argue that the austerity measures during the crisis are a part of a wider context of the national welfare state paradigmatic shift that started more than two decades ago.

### **EFFECTS OF THE CRISIS ON UNEMPLOYMENT AND POVERTY**

Despite the initial optimism that the global economic and financial crisis would bypass Serbia, at the end of 2008 it became obvious that this would not happen. The disadvantaged position of Serbia was mainly caused by the dramatic developments during the 1990s. After the period of the "blocked transformation" during the 1990s, the real political, economic and social transition began in 2000, followed by the economic recovery, stabilization and growth. In the upcoming years, reforms were implemented with varying intensity, consistency and under the strong influence of international financial institutions. During the period between 2000 and 2008, significant economic growth was achieved, along with macroeconomic stability and the liberalization of prices and foreign trade in the labour market and welfare sector. Real GDP growth was moving at a

rate of 5.6% per year. The standard of living was significantly improved and a huge breakthrough was made in reducing the percentage of the population living below the poverty line. Between 2001 and 2007, real wage growth was around 10% per year. The percentage of people living in absolute poverty decreased after 2000, especially in the period between 2006 and 2008, from 8.8% to 6.1% (Vlada RS, 2011a).

However, a wide range of problems remained unsolved. This additionally contributed to the vulnerability of social and economic systems to economic and financial shocks. One of the most serious and most persistent problems was related to the characteristics of the Serbian labour market. The relevant indicators of the labour market functioning were unfavorable, especially compared to the EU or even to other Western Balkan countries.<sup>1</sup> The Serbian labour market has been showing characteristics of the transition processes: a persistently high unemployment rate, an especially high share of long term unemployment, a low employment rate with an unfavourable employment structure and extremely high share of employment in the public sector, a generally high level of employment in agriculture, a high rate of informal employment and a high share of insecure jobs (Arandarenko et al., 2009). Negative trends from the 1990s, simply continued throughout the first decade of the 2000s, and with the processes of privatization and economic restructuring, the situation was becoming even more complex. The number of employees was declining for much of the first decade of the 2000s, and the fall was especially dramatic since the beginning of the crisis in 2008. Just from October 2008 to October 2009, the

number of employees fell by almost 200 000 or 7%. In 2010, the number of employed reached its minimum of 2 279 000, a decrease of almost 11% from 2005. The employment rate fell from 54% to 50.3%, and it continues to be especially low for women (42.2%) and young people aged 15 to 24 (15%) (Arandarenko et al., 2013). Even though the position of women in the labour market continues to be unfavourable, during the first years of the crisis the decline of employment was sharper among men, because of their greater participation in the sectors of the economy that were affected by the crisis. This will probably change in the upcoming years with the decrease in the number of employees in the public sector. During the same period, the number of unemployed people increased by almost 60 000, which increased the unemployment rate from 14.7% to 17.4%. A significantly lower growth in the unemployment rate compared to a decline in employment indicates that large numbers of people become inactive. Nevertheless, the unemployment rate continued to grow to 23.7% in 2011, then 25.5% in 2012 and 24.1% in 2013 (RSZ, 2011, 2012, 2013).

Because of an economic downturn, there was a deterioration in the standard of living and the number of people living in absolute poverty, after a steady decrease over time, started to increase again. In 2009, the absolute poverty rate was 6.9% and in 2010 it was 9.2% (Vlada RS, 2011a). The increase is particularly evident among people with a lower education and children below 15. The position of specific vulnerable groups was particularly exacerbated during the crisis because of the: reduction of the labour supply in the informal economy, loss of employment in the formal

<sup>1</sup> From 2009 to 2012, the percentages of unemployment rates based on LFSs were comparatively the worst for Serbia, except for FYROM and Bosnia-Herzegovina. The countries being compared also included Bulgaria, Romania, Montenegro, Hungary and Croatia.

economy, small chances of finding a new job and reduction of earnings in the formal and informal economies.

### GOVERNMENT'S ANTI-CRISIS MEASURES

A reduction in economic activities led to the reduction in budget revenues and required the adoption of anti-crisis measures. Accordingly, at the end of 2008, and especially during 2009, the Serbian government formulated and adopted a set of economic measures in order to mitigate the negative effect of the crises. In December 2008 the document *Economic crises and its influence on the Serbian economy* containing a general program of measures for mitigating the effects of the economic crisis was adopted. It represented a combination of restrictive measures and incentives, as a consequence of the need to reduce expenditures while stimulating exports and foreign investments, savings, etc.

During the first three months of 2009, several packages of economic measures were formulated. In March 2009 the negotiations with IMF were opened to revise the credit arrangement, focusing on budget deficits. Meanwhile, in early April 2009, the *Government's plan for the economic stability of Serbia* was adopted. That plan promoted: cheaper public administration, social responsibility of the state, the protection of the standard of living, stimulation of economic activity, as well as investments in the infrastructure. The biggest area of savings was supposed to be in continuing the reform of public administration in order to reduce expenditures of state authorities, as well in prohibiting new employment in the public sector. Active labour market measures included: support for hiring appren-

tices, public works programmes especially in underdeveloped areas, incentives for employers to create jobs etc. (as described in more detail in the following section).

Negative consequences of the crisis were manifested, such as: obstacles that prevented employees to exercise their rights, particularly in privatized firms, and private employers who did not fulfill their responsibilities as prescribed in social programmes by not paying their share of contributions to social insurance. In order to overcome negative consequences of the crisis, a Budgetary Fund was established, and The *Social Protection Plan* was adopted in August 2009. This plan has provided for the payment of contributions to old-age and disability insurance for the employees whose employers did not settle this obligation in the period from 2005 to 2009, along with the payment of contributions for health insurance for 2009. The Plan also envisaged one-off financial assistance for the employees with the lowest income, as well as the rescheduling of unpaid bills for electric utilities. Despite the adopted programmes and envisaged measures, fiscal policy during all of 2009, reflected the strong impact of the crisis, while the revised budget was directed toward increasing public expenditure.

In 2010 there was a slight economic recovery, but activities targeting fiscal adjustment were continued. Additional regulations were adopted in order to define the exact number of people working in the public sector, so it could be reduced. The data for late 2010 and early 2011 indicate increased total indebtedness, reduction in revenues from privatization and international competitiveness of the Serbian economy (Vuković and Perišić, 2012c).

## WELFARE STATE PROGRAMMES

### New/Old Paradigms on the Labour Market

A strand of measures to protect the unemployed during the crisis has included certain redefinitions of both passive and active labour market programmes (ALMPs). Passive labour market programmes are the old paradigm, rooted in the Bismarckian origins of the welfare state in Serbia. They are clearly dominant over the new paradigm of activation. The real impact of the latter can be highly contested. Currently, cash benefits for the unemployed have been regulated by a law passed in 2009,<sup>2</sup> which was actually conceived prior to the crisis. There is a strong argument that the current legislative framework presents a mere continuation of overall phasing-out of interventions by the state. During the 1990s the unemployed were entitled to rather generous benefits, which were completely depreciated by hyperinflation and the safety of their employment was actually compromising economic aspects of labour. Unlike the 1990s, institutional aspects of labour market reforms and unemployment insurance have been strongly dominated by flexible norms and reduced entitlements of employees in general since the year 2000.<sup>3</sup>

As a result of the gradual tightening of eligibility criteria, unemployment benefits are now payable for a period from 3 to 12 months,<sup>4</sup> depending on the employment history. They amount to 50% of the average salary of the beneficiary during six months

that preceded the employment termination. The protective clause is that the amount of the benefit cannot be below 80% of the minimum wage, but it also cannot be above 160% of it. Despite the crisis, the decision makers yet opted for a slight reduction in the amount of benefits as of 2009, based on the argument that it “would not have a significant impact on the incidence of poverty” (Corbanese, 2011:56). The reason is twofold: the beneficiaries have tended to be above the poverty line and they do not represent a huge group. Much less than 10% of registered unemployed people are entitled to them. Moreover, available data suggests that the average amount of unemployment benefits, as a consequence of changes, “has become similar to an average level in comparable countries of the Western Balkans as well as in Central and Eastern Europe” (Arandarenko, 2011b:188).

Both the decreasing number of cash beneficiaries from 2009 to 2011 (Table 1) and lower amounts of an average cash benefit are a reflection of tighter eligibility criteria, in terms of reduced duration of the entitlement period and replacement ratio. This situation is inversely proportional to the increased number of registered unemployed people and increased expenditures for unemployment benefits. “Total expenditures for unemployment benefits increased from RSD 18.5 billion in 2008 to RSD 25.5 billion in 2010. However, behind this remarkable growth during the crisis, there are substantial dynamics, reflecting the fact that in 2009 and 2010 all arrears,

<sup>2</sup> The subjected law is *The Law on Employment and Insurance against Unemployment*.

<sup>3</sup> However, one of the side-effects of the previous legislation on unemployment benefits is the existence of a high proportion of expenditures for passive versus ALMP. “Although, in the past decade there was a strong need and motivation to minimize the share of passive labour market measures, as opposed to active, there are many problems in practice. Expenditures for unemployment benefits have been constantly pushing out active measures, accounting for even 87 to 96% of the overall budget for active and passive labour market measures” (Vuković and Perišić, 2012a:73), as shown in the Table 1.

<sup>4</sup> The benefit is payable for 24 months, provided that a person misses two years to be entitled to a pension (The Law on Employment and Insurance against Unemployment, OG 36/09., 88/10., art. 72).

which amounted to the 5 month lags in payments during 2008, were removed” (Arandarenko, 2011b:38). Still, expenditures for unemployment benefits amounted

to as low as app. 0.5% GDP on average in the period between 2007 and 2010 (Vlada RS, 2011a:115).

Table 1.

*Financial funds targeted at passive and active labour market measures, 2000-2012*

Year	Unemployment benefits, average number of beneficiaries	Total expenditures for benefits, in RSD 000 000 per current prices	Active labour market measures, in RSD 000 000 per current prices	Benefits as % of programme consumption of the NES	Active labour market measures as % of programme consumption of the NES
2000	47 393	758	521	59.3	40.7
2001	51 156	2 429	1 057	70.2	29.8
2002	69 566	4 716	1 306	78.3	21.7
2003	90 995	7 891	881	90.0	10.0
2004	76 584	11 404	410	96.5	3.5
2005	63 295	12 639	1 545	89.1	10.9
2006	75 059	15 054	1 540	90.7	9.3
2007	71 334	17 920	2 165	89.2	10.8
2008	72 719	20 007	3 365	85.6	14.4
2009	86 602	22 863	3 275	87.4	12.6
2010	79 417	25 521	3 685	87.3	12.7
2011	68 187	17 547	3 436	83.6	16.4
2012	70 355	16 432	3 266	83.4	16.6

Source: Arandarenko, 2011a; NSZ, 2011, 2012, 2013; own calculations.<sup>5</sup>

Another path, that of ALMP, has been arguably restructured, so as to be more clearly linked to the crisis. First of all, ALMPs were introduced in 2003 in order to contribute to the overall promotion of the value of human capital. “Active employment policy was conceived in a nice and modern manner in the law. Problems arise in its specification: neither is there money for them, nor does the National Employment Service (NES) operate at a sufficiently high level” (Mijatović, 2005:314). Therefore, legislative changes to the ALMP have been prepared since 2007,<sup>6</sup> so as to be

redefined, with a view to overcoming rigid rules and becoming more inclusive.

At the beginning of the crisis, in April 2009, two active labour market programmes were also intensified based on expectations of severe consequences due to their positions at the time of the crisis: those focused on youth without work experience and those focused on the long-term unemployed. These included an apprentice programme called *The First Chance*, and public works. *The First Chance* was resulted in high coverage, reduced unemployment in youth, and satisfaction between

<sup>5</sup> The authors would like to express their gratitude to Mr. Nikola Atanackovic from the National Employment Service for his great contribution in compiling data.

<sup>6</sup> Currently valid ALMPs are a part of *The Law on Employment and Insurance against Unemployment* of 2009.

both trainees and employers. However, the main objections to it were that it was not directed at the young people who are the most vulnerable (i.e. those with primary school education),<sup>7</sup> the costs have been very high and obligations of employers have been rather relaxed. On the other hand, funding for public works almost doubled in 2009 and some preliminary data pointed to their progress in terms of an increased coverage of Roma and persons with disabilities. However, final evidence was disappointing regarding their effects on non-subsidized work of the participants. Therefore, immediately in 2010, the financing of public works was reduced. These two programmes were largely implemented at the expense of other ALMPs (such as job subsidies) (Arandarenko, 2011b:34) during the crisis, but drafting of individual employment plans experienced expansion as well as on-the-job training for the workers affected by enterprise restructuring. On-the-job training, along with employment subsidies and self-employment programmes also targeted young people without work experience, minority groups, the disabled, etc.

The overall funds devoted to ALMPs have remained extremely low, with 0.1% GDP on average in the period 2007 to 2010 (Vlada RS, 2011a:115), without taking into account funds invested by local communities. There is evidence that the Province of Vojvodina alone spent almost the same amount of money for ALMPs as the entire Republic of Serbia (Corbanese, 2011:58). However, data from NES suggests that current programmes cover even fewer participants than the passive programmes, i.e. 5%

of all registered unemployed. It appears that the size of expenditures for active measures, which determined the percentage of users, decisively influenced the final effects of active labour market policies (Vuković and Perišić, 2012a). The funds and the scope of ALMPs raise doubts about the meaning of the discourse of activation in the national context. Limited funds, even in the case of their optimal influence, cannot essentially change total outcomes on the labour market (Arandarenko, 2011b).

### **Activation Approaches to Social Welfare**

Another strand of measures to protect the unemployed during the crisis and the disabled population in general has been the social welfare scheme.

Legislative design of social welfare during the last two decades was regulated by the law<sup>8</sup> in 1991. It was subjected to numerous, important and essential changes, but a new law was not enacted until 2011. There are indications that the government accelerated its enactment due to a worsened social situation and increased poverty rates (Corbanese, 2011, Arandarenko, 2011b). The longitudinal data on the number of families receiving cash welfare benefits evidence their role of automatic stabilizers during the current crisis in Serbia (Table 2).

<sup>7</sup> Data for 2010 indicates the dominance of young people with secondary (almost 63%) and university education (33.5%) in the programme. Additionally, 12.5% of users were more than 30 years old (NSZ, 2011).

<sup>8</sup> The law mentioned is *The Law on Social Welfare and Supporting Welfare of Citizens*.

Table 2.

*The number of families receiving cash welfare benefits, 2002-2012*

Year	Number of families	Growth index
2002	48 236	100.0
2003	54 272	112.5
2004	61 371	127.2
2005	62 267	129.0
2006	65 869	136.5
2007	48 766	101.1
2008	50 608	104.9
2009	66 664	138.2
2010	72 997	151.3
2011	91 919	190.6
2012	118 555	245.8

Source: RZSZ, 2011, 2013; own calculations.

The basic cash benefit programmes targeting the poor on the state level are cash welfare benefits<sup>9</sup> and child allowances. From 2007 to 2010, expenditures on these benefits amounted to as low as 0.15% GDP (Vlada RS, 2011a), which was comparatively extremely low, both from the point of view of the GDP percentage and real funds. In combination with very strict eligibility criteria, consequently only about 2% of the total number of households in Serbia was covered by social welfare, i.e. only 8.6% of the poor (Vlada RS, 2011a). Additionally, the amounts of benefits have been low, even below the poverty line. There was a strong case for the expansion of the programme, argued by the World Bank (Svetska banka, 2009), but it was not expanded despite the fact that even significant increases in the funds devoted to social welfare benefits would not present a problem for the state budget.

Weaknesses in the Material Support to Households Programme were numerous. It was passive and encouraged dependence on social welfare (Petrović, 2011). The equivalence scale put large families into disadvantaged position (Matković and

Mijatović, 2009). The contribution to poverty reduction was only modest, “compared to the EU average, and the efficiency of social transfers in Serbia has been almost seven times lower compared to the average value in the Union” (RZR, 2009:63).

In an effort to overcome some of the basic obstacles, the new law of 2011 made changes in the eligibility criteria and equivalence scale. It provided that 6 members in a household were entitled to cash welfare benefits, instead of the previously defined maximum of 5 members in a household, thereby enabling large families to access the benefits in a more equitable way. The equivalence scale was adapted to the modified OECD scale, so that it made a difference between children and adults in a household in the following ways: 100% of the benefit was assigned to the first member of household, 50% to each additional adult and 30% to each child (The Law on Social Welfare, OG 24/2011, art. 88), and the definition of disabled was expanded. Additionally, households without able-bodied members became eligible to 20% increased cash benefits, and means testing that previously excluded those having ownership over 0.5

<sup>9</sup> In The Law of 1991 this benefit was named *Material Support to Households*.

hectars of land was changed so as to exclude those disabled who have over 1 ha (The Law on Social Welfare, OG 24/2011, art. 82). Finally, able-bodied beneficiaries continued to face limited duration of entitlement. They continued to be entitled during 9 months in a one year period.

One of the intended objectives of The Law of 2011 is to foster a proactive role on the part of beneficiaries through education, training and employment. However, there are concerns on one part of the public that the activation of beneficiaries is promoted instead of the activation of the state. The concern is that the victims are blamed for their situation, because of the inability of the state to create new jobs and offer them real possibilities for advancing their skills. In case of insisting on such a defensive approach to activation, it will not present a way out of the crisis, neither for the beneficiaries nor for the state. An alternative approach to activation that would offer possibilities to develop and empower beneficiaries is not a realistic option. Currently, an activation approach is not defined in any detail, and except for declining the right to social welfare benefit for able-bodied beneficiaries during 3-month period, there are no activation measures by the state. A research study conducted by Petrović (2011) focused on employment performance of social assistance beneficiaries. It points to a negligible employment rate among social assistance beneficiaries. Only 3% of them were employed, mainly in the grey economy, while only 41% were seeking jobs (Petrović, 2011:14). Even though the basis of the benefit amount<sup>10</sup> has risen, it accounts for about 17% of an average salary, which is 35% of a minimum wage.

During the 1990s, entitlements to child allowances were rather universal. They targeted almost all children. In 2002 the government of Serbia designed them as a social policy measure to reduce poverty in children. Budgetary constraints at the beginning of the 2000s required their selective design. There were no changes to this programme in connection with the crisis. Their amount is extremely low. It amounts to RSD 2 535 and RSD 3 295 in a regular amount and an increased amount, respectively (MRZSP, 2013), presenting thus 5.7% and 7.4% of the national average salary, respectively.<sup>11</sup>

The introduced changes are not likely to make a big difference in the reduction of poverty. Eligibility criteria are expected to increase the number of beneficiaries and to make for a more equitable distribution of the total amounts families receive. Whatever the increase, the starting number of beneficiaries is low. A micro-simulation conducted by Arandarenko reports an expected decrease in the number of poor by 4% based on new regulations (Arandarenko, 2011b) and concludes that “more generous initiatives are needed to effectively lift a greater number of poor above the absolute poverty line” (Arandarenko, 2011b:38). Complementary to this, Matković reports an expected increase in the number of recipients by 50 to 60%, and an increase in expenditures for social assistance schemes by 70 to 80% (Petrović, 2011).

### Competing Pension Discourses

The reforms to the Serbian pension system date back to the beginning of the 2000s. The changes to the PAYG system

<sup>10</sup> In July 2013, the basis of the benefit amounted to RSD 7 530 (MRZSP, 2013), while the average salary and minimal wage in the same period amounted to RSD 44 182 and RSD 21 160 respectively (Paragraf, 2013).

<sup>11</sup> The calculation refers to the amounts of average salary and child allowance in July 2013.

included: raising the retirement age, changing the calculation formula by the indexation of pensions, introducing more rigid conditions for the granting of disability pensions and for early retirement, as well as eliminating some privileges. The trend of tightening eligibility criteria was not discontinued during the crisis and the changes of 2010 presented pre-planned measures to contain the pension costs. They were agreed upon with the International Monetary Fund in 2009, as a condition for signing a stand-by arrangement. They are mainly in the domains of modifying conditions for retirement on the basis of the “full qualifying period” and minimum age, privileged qualifying periods and indexation of pensions. The indexation of pensions was the most controversial topic in the process of legal changes in 2010. The actors of the debate were unions, The Pensioners Party<sup>12</sup> and the government of Serbia and it seems they had their hidden agendas, along with those that were self-evident. The World Bank’s role, once again, proved unavoidable. It designed guidelines for pension reform and imposed some of them on the government, given its disability of creating reforms independently due to a budget deficit. They ranged from freezing pensions in 2009 and 2010, indexing them pursuant to inflation, discouraging early retirement, and raising the retirement age for women to further improving of the administration of the system (Svetska banka, 2009).

However, it must be noted, that reductions and austerity measures related to the pension system during the crisis have been connected to the efforts to decrease the fiscal expenditures for the pensions that were booming in the previous period. Namely,

due to the concerns about depriving the pensioners “from participation in the fruits of economic growth” (Mijatović, 2008:88), the pensions were extraordinarily indexed in January and again in October 2008. Additionally, by the end of 2008, there was a mechanism that was preventing an average pension to fall below 60% of an average salary. For example, this ratio fell to 57% in 2007, so that the government of Serbia paid the difference up to 60% to the pensioners from the budget. Therefore, at the beginning of the crisis, which was at the end of 2008, the average pension was increased in real terms.<sup>13</sup> This was contrast to 2008, when the average pension in 2011 amounted to 54% of an average salary (Zdravković et al., 2012), there were no Government’s measures.

In the end, it was accepted that pensions be increased by 2% in December 2010, which was the first adjustment after two years. In April 2011, the adjustment was made according to the changes in consumer prices in the previous three months, and in October 2011 and April 2012 according to the changes in the cost of living and GDP growth. After October 2012, the adjustment was planned to occur twice a year (on the 1<sup>st</sup> of April and on the 1st of October) based on the changes in consumer prices and GDP growth. Despite the changes to the *Law on the Budget System* providing for the implementation of the agreed indexation by 2015 or as long as the share of pensions in GDP reaches 10% of it (Vuković and Perišić, 2012b), in September 2012, the new government suspended the rule for one year, and accepted their nominal increase of 2% in October 2012 and April 2013.

<sup>12</sup> PUPS – The Party of The United Pensioners of Serbia was founded in 2005 and since 2008 it has been one of the governing parties.

<sup>13</sup> Despite constant reforms of indexation mechanisms, rapid growth of earnings in the period from 2001 to 2008 resulted in rapid growth of pensions (Mijatović, 2008).

The changes of 2010 provided for extraordinary adjustment of the minimum pension on the 1st of January 2011, by 1% compared to the minimum pension paid in 2010. It is determined that the minimum pension cannot be below 27% of the average salary in the preceding year. This guarantee does not seem strong enough to present an automatic stabilizer of the standard of living for the lowest income pensioners. However, in 2012 the government opted of paying additional funds to pensioners with the pensions below RSD 15 000.<sup>14</sup> For retired farmers, the minimum pension was determined at RSD 9 000 on the 1<sup>st</sup> of January 2011. Its amount is, therefore, only somewhat higher than social welfare benefits (Table 3). Additionally, although data on the number of elderly outside the pension system differ substantially, they nevertheless point to their above average poverty risk and the lowest efficiency of social transfers. In 2009, the poverty rate for the elderly was reduced from 18.9% to

18.2% after social transfers payment (without pensions) (Vlada RS, 2011a). Currently, there is not any substitution of the zero pillar. Regarding its introduction, there exist two competing scenarios, but both are conditional. National experts suggest their introduction at the middle of the decade, provided that the share of pension expenditures falls below 10% GDP (FREN, 2010). Alternatively, the World Bank suggests the expansion of the social welfare scheme (Svetska banka, 2009).

Another part of reforms, the introduction of voluntary pension insurance, was agreed upon with the World Bank even in 2001, but it was only in 2005 that the referenced Law was enacted. The share of net assets of the private pension funds in the national GDP is low, despite its growth. The reasons are manifold: short period of their existence, low purchasing power of the population intensified by the crisis, macro-economic instability, lack of information, etc.

Table 3.  
*Pensions and poverty lines, 2006-2011*

Year	Absolute poverty line, in RSD	Relative poverty line, in RSD	Minimal pension, in RSD	The lowest amount of survivors' pension, in RSD	Minimal farmers' pension, in RSD
2006	6 621	7 171	6 878	4 815	5 171
2007	6 625	7 747	7 667	5 367	5 700
2008	7 401	8 923	9 946	6 962	7 446
2009	8 022	9 583	11 088	7 762	8 385
2010	8 431	10 206	11 088	7 762	8 385
2011	8 853	10 971	11 809	8 266	9 000

Source: Vlada RS, 2011b.

<sup>14</sup> The pensioners with the pensions up to RSD 15 000 were paid on a quartal basis one-off payments (per RSD 4 000) in the total amount of RSD 16 000 inclusive of June 2013.

At the beginning of 2013 there were 180 850 beneficiaries in the accumulation phase (period of paying funds) with a total of 241 927 membership contracts. The highest increase in the number of beneficiaries was in 2009 and 2011, by about 9 000 and 8 000 new beneficiaries respectively. While in 2010 there was a negligible increase in beneficiaries. In 2012, the number increased by 5 000 (NBS, 2013). This could be explained partially by the delayed effect of the crisis and the fact that the crisis had just begun in 2009 so that in 2011 there was a moderate alleviation in the economy. Furthermore, the number of beneficiaries of private pension funds account for 2.5% of the population, in other words “every tenth employee is a member of a voluntary pension fund” (NBS, 2013:18). Along with the increased number of beneficiaries, the net property of private pension funds has steadily been increasing. Even so, the crisis contributed essentially to their decreased yields.

In its anti-crisis package, the Government of Serbia has concentrated its measures to support the third pillar in terms of tax reliefs, by gradually raising the amount of tax-free contributions in order to stimulate employers to streamline their funds to the voluntary pension plans for their employees. Also, it has offered the possibility to use fund assets as a guarantee when buying individually owned residential property. On the other hand, it has provided an increase in the minimum age for withdrawing accrued funds from 53 to 58 years of life and has limited the amount of accrued funds which may be withdrawn as a lump sum to 30% of funds in the account.

### Health Reform Puzzle

The trend of the stabilization in the collection of funds for health-care as well as in increasing health-care expenditures *per capita* was interrupted in 2009. At that time a cut in health expenditures by 15% was announced, as a consequence of reduced inflow of contributions to the Health Insurance Fund of The Republic of Serbia, due to the crisis. Government projections for the period 2011-2013 predicted a slight decrease in health expenditures in the share of GDP, or stagnation at the same level, compared to the preceding period. Government projections were 5.6% in 2011, 5.3% in 2012 and 5.1% in 2013 (Vlada RS, 2011b). However, the GDP of Serbia was comparatively low and its growth projections in 2012-2013 were very modest. Furthermore, if nothing else, the expected cuts were expected to result in the reduced quality of health services.

Additionally, an imbalance between the share of GDP of expenditures for the national public health care system and its outcomes points to its long-lasting inefficiency requiring reforms of the system, even before the crisis. In this regard, the recommendations of the World Bank ranged from reducing the number of beds, decreasing the number of non-medical staff and physicians in health centers, to improving decision-making procedures (Svetska banka, 2009). The orientation toward reducing the number of non-medical workers, number of beds, etc., has had a dual purpose. This orientation is a consequence of austerity programmes, but it is also an unachieved aim of reforms initiated in 2003. The freezing of salaries for employees in the health sector, as a part of the obligations within

the package signed with the IMF, is a consequence of the crisis, as is the declared reduction of 10% in the salaries of the health sector, as of 2013.<sup>15</sup> Planned decentralization should also contribute to savings for the state budget. A need to distribute existing funds for health in a different way, with a view to achieving better outcomes with the same revenues, is therefore, seen as the most important aim. The government suggested changing the existing funding arrangements (i.e. introduction of capitation and DRGs at the primary and secondary/tertiary levels of care respectively). Current assessments point to worse results than expected.

There are indications that the accessibility of health care has been compromised for many during the crisis, despite the legal expansion of those having free health care. The right to health services is exercised by 6 786 333 inhabitants of Serbia (RFZO, 2011), so that the coverage rate is 93%. The “missing” 7% can be attributed to minority groups (Roma), refugees and internally displaced persons, etc., but also those employees whose employers do not pay contributions for them. A research study of social inclusion in rural areas, conducted in 2010, showed that “12.6% of the interviewed stated they did not have health insurance” (Vuković, 2011:173), while 20% of the interviewed stated that due to a lack of money they could not buy necessary medicines, 8% could not buy medical appliances, and 17% could not pay for check-ups by specialists (Vuković, 2011). Another side of the crisis, in terms of reduced earnings and increased poverty, causes actual unaffordability of health care.

The development of the private health sector, so far, does not seem to present a solution to the problems of public health

care. Public and private health sectors exist independent of each other, despite the proclaimed reform aims with respect to “increasing the participation of the private, for-profit and non-profit sector in rendering health care financed by the Health Insurance Fund of the Republic of Serbia” (MZ, 2003:25). Almost one decade after the proclamation, apart from papers, there have not been any developments (Vuković and Perišić, 2012b). Therefore unsurprisingly, the so-called out-of-pocket payments amount to about 25% of total expenditures on health care in Serbia (WHO, 2010), which ranks it high compared to many other European countries. Even worse, data from the National Health Account in Serbia suggest that more than 35% of costs of health care are financed by households (MZ, 2010). Thus, private expenditure for private health care services significantly increases household expenses (Vuković and Perišić, 2012b).

## CONCLUSION

The world economic crisis of 2008 posed some serious challenges to the already disputed access to welfare benefits and services and their quality, and even more to the sustainability of national welfare programmes. However, the crisis of 2008 did not present an event that would reverse the situation. Budget deficits in the state have been one reason for not creating stimulatory measures as a reaction to the crisis. Of course, this is only a part of the explanation of events, outside of the welfare state itself. Discourse on austerity measures in the welfare state of Serbia has been evident in the public domain long before the economic crisis. The reason for that is the conceptual and practical crisis

<sup>15</sup> However, the newly elected government did not put into force the 10% reduction of salaries in the health sector.

of the welfare state itself, ever since the 1980s. The socialist welfare state declared very favourable rights, while the control mechanisms were weak along with strong bureaucratic structures. These contributed to various types of misuse of relatively generous benefits and services and resulted in an extreme economic overburden to the state. Consequently, a huge gap between the declared rights and their implementation became the dominant feature of socialist practice. Social needs of the population were rather modest compared to the social needs of the population in capitalist countries, but also well above the national economic potentials. The period of etatism in social welfare was followed by the period of quasi-etatism in the 1990s. The government kept many of its obligations, fearing a populist backlash, but it was not able to fulfill them. An extreme burden for welfare during the period was transferred to families and informal networks. In practice, from the beginning of the transition of the 1990s, market principles have been widely introduced into all spheres of society. Partially as a consequence of a revolt against the past, and partially due to a strong necessity for attracting foreign capital, both at the levels of individuals and society, the market has been accepted as a governing ideology in the provision of welfare as well. As the acceptance of socialist values was highly dogmatized forty years ago, very much the same happened with their rejection.

The crisis of the 1990s was extremely dramatic in the national context compared to the crisis of 2008. The crisis of the 1990s was multi-dimensional with interrelated factors such as: financial, economic, political, social and ideological factors. Thus, new opportunities were numerous and mutually reinforcing. The latter crisis, that of 2008, was primarily financial and econom-

ic, and has been intensifying the already well-established trajectory of austerity, without the potential of reversing the liberal policies and programmes.

Market elements in the welfare state resulted in institutional reforms in the 2000s, and the resulting changes have become complex, rooted and established. The argument of timing is important here. Early reactions to demographic, economic, financial, and other challenges were of utmost importance, since they seemed to reduce room for maneuvers. Those early reactions were dominated by different and inconsistent agendas for economic and social policy reform. This was partly due to the fact that since 2000, every administration of the elected-government in Serbia was a coalition government administration, which consisted of political parties and movements with different socio-economic programmes (Arandarenko and Golicin, 2006). Additionally, international financial institutions, especially The International Monetary Fund and the World Bank, had a strong influence on the course of the changes. As for the other relevant actors such as: trade unions, civil society organizations and professional associations, they were almost invisible and their role marginalized, except in the cases where their participation was explicitly required (such as the PRSP). Another argument, that of self-reinforcing events, came into the arena for two reasons. First, being a late reformer and implementing many *ad hoc* measures in the welfare sector, Serbia found itself in a locked-in situation and second, the introduction of alternatives to the market principles has become increasingly expensive. There was also a role played by individual, institutional and organizational adaptations to this new track, resulting in the creation of new networks and vested interests, and so on.

Devalued and compromised socialist social values and institutions did not leave any room for the survival of those mechanisms that would prevent uncritical wholesale acceptance of market regulations in social policy. That has transformed into a legal framework regulating social welfare in terms of welfare provision privatization. Therefore, welfare reforms have translated into rationalization and austerity measures. For example, cash benefits for the unemployed have been tightened and funds which were supposed to be devoted to activation policy have been denied, thus preventing the actual development of policy. Cash benefits for the poor are very low and social services have been transferred to the private sector to a large extent. Child allowances lost their universal character. Pension reforms commenced with restructuring the public pillar with a view to decreasing the expenditures. Rationalization measures in the health sector have also been introduced, but the reforms of this system are in the early stage compared to the others. All these developments are evidence of the shrinking role of the state in welfare provision. Moreover its further reduction can be expected. Because the welfare system is not sustainable, those modifications can be expected in the direction of making rules stricter.

However, since currently defined austerity measures mean that the state transfers part of its obligations to the private sector as well as to the informal sector, potentially, the values of solidarity and mutuality could be perceived as less important by the members of the society. This change in values would lead to a narrower focus of the national welfare state. In case it becomes identified with support to marginalized groups, it would become increasingly difficult to provide a wide base of social support to its programmes and measures.

Austerity measures and consequent emphasis on individual responsibilities bring up the issue of how to support and empower self-reliance by individuals and families. Given the current rates of poverty and unemployment, it does not seem that the individuals in need of social welfare and their families are equipped for self-reliance. The state of Serbia has skipped the step of supporting and empowering individuals to practice such a concept. Moreover, despite the economic progress during 2001–2008, the welfare state proved to be vulnerable. Provision of social welfare was prevented by the orientation away from individuals toward market forces. The activation of the national welfare state would be a preferable concept. It would mean a transformation of the passive welfare state essentially oriented toward benefits into an active welfare state oriented toward services.

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## Sažetak

### **ODGOVORI SRPSKE SOCIJALNE DRŽAVE NA GLOBALNU EKONOMSKU KRIZU**

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*Globalna finansijska kriza razotkrila je ozbiljne slabosti u srpskom gospodarskom i socijalnom sustavu. Kratkoročne mjere za ublažavanje negativnih učinaka krize bile su samo djelomično uspješne. 2010. godine socijalna je država naznačena kao jedno od prioritetnih područja srednjoročnih državnih reformi, no dosada nije bilo radikalnih rezova, iako nije sigurno je li takva situacija održiva. Glavne smjerove reforme određivao je, i određivat će, manjak proračunskih sredstava (drugim riječima, potreba za smanjivanjem udjela socijalnih transfera unutar BDP-a i njihova održivost). Iako su dostupnost i kvaliteta proglašeni jednako važnim ciljevima reforme, učinci reforme ukazuju da su fiskalna ograničenja najvažniji izazov. Mjere štednje, karakteristične za srpsku socijalnu državu, u vrijeme krize nisu povezane samo s krizom, nego se mogu promatrati kao dio opadajuće uloge države nakon pada socijalizma u devedesetim godinama 20. stoljeća. Stoga je ponekad teško razlučiti između mjera kao reakcije na krizu i onih koje su razmatrane prije krize, jer se čini da su njihovi ciljevi rijetko kompatibilni.*

**Ključne riječi:** kriza, tržište rada, socijalna skrb, mirovine, zdravstvo.