

Imposing local neoliberalism in South East Europe: How to destroy an economic space without really trying

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Background

- Former Yugoslavia the most successful of all the Eastern European economies
- Thanks to its novel system of ‘worker self-management’
 - Industrial democracy operated to a meaningful degree (at least before changes to the law in 1972)
 - Solid social structures ensured high social security and little poverty (poverty mainly restricted to Kosovo, Macedonia and Montenegro)
 - Quasi-development banking structures ensured finance went to some good companies, especially in Slovenia and Croatia (but some bad ones too though)
 - Economy quite open to innovation and technology transfer (in 1970s Yugo firms had more mainframe computers than those in either Italy or Austria)
- Thus, potential for successful transition to more market-based economy very high indeed

Post-war reconstruction and development

- Yugoslav civil war (1992-95) destroyed many former Yugoslav countries' economies
- After 1995 region seen by World Bank and EBRD as post-conflict 'test-bed' for their box of neoliberal policies
- It did not matter that such policies appeared to be **already** destroying the rest of post-communist Eastern Europe (Andor and Summers, 1998: Stiglitz, 2001)
- Bosnia enjoyed one of largest ever aid programs per capita, higher even than Marshal Plan to western Europe

Crucial role of ideology

- Aid to the region was conditional on adoption of neoliberal parameters, **including with regard to local economic development institutions**
- Twin track aims of local neoliberalism were:
 - To validate the role of the private sector as a provider of support to the enterprise sector – felt need to eradicate virus of ‘industrial policy’ which for some neoliberal ideologues was ‘too close to communism’
 - To further invalidate the role of the state capacity - all remaining state capacities to be dismantled, and construction of new capacities using aid monies disallowed
- Local officials, and all World Bank project managers and Executives, individual technical advisors and consultancy companies ALL had to sign up to this neoliberal agenda, or be shut out....
-institutional and individual advancement based on the willingness to defend neoliberal ideology when it all began to go very wrong

What economic crisis in the Balkans?



The local neoliberal policy response: *do as we say, not as we did!*

- Central aim at local level was to create new generation of **formal SMEs**
- SMEs seen as key to generating employment, reducing poverty, raising average productivity, raising taxes, developing exports, etc
- Neoliberals in the World Bank and EBRD were convinced that
 - the market would self-sustaining enterprise support structures into place..
 - financial institutions (even if foreign-owned) would **automatically intermediate capital into highest value uses**
- So zero support for an industrial policy approach to reconstruction, even though this was key to development:
 - in the developed Western economies in their rise to power (Chang, 2002)
 - in the East Asian ‘miracle’ economies after 1950 (Amsden (2007)
 - and today in the USA, such as with regard to Apple (Mazzucato, 2012)

The local neoliberal policy response on the ground

- Twin track interventions deemed imperative:
 - Market-driven **enterprise development institutions**, to promote formal SMEs
 - Market-driven **microcredit**, to combat rising poverty and exclusion
- Enormous financial support and time invested into building financially self-sustaining profit-oriented local institutions
- EU's programs, USAID, World Bank, ILO, DFID, KfW, UNDP, SIDA, SDC, etc.

1. Local enterprise support institutions

- Designed to address the rising level of unemployment through formal SME development
- ‘Market always works’, but just needs a little help under difficult post-war circumstances....
 - SMEs need qualified source of advice and support, but this must be **financially self-sustaining** (no subsidies!)
 - Regulations must be slashed to allow ‘animal spirits’ to come alive without any possible hindrance (Hernando de Soto influence here)
- ILO termed this neoliberalised model, the ‘**new paradigm**’ model of enterprise development (CDASMED, 2001)
- Global idea was to create the local ‘enabling environment’ in which spontaneous ‘bottom-up’ market-driven SME development would take place

Enterprise support structures (ESSs) begin to proliferate

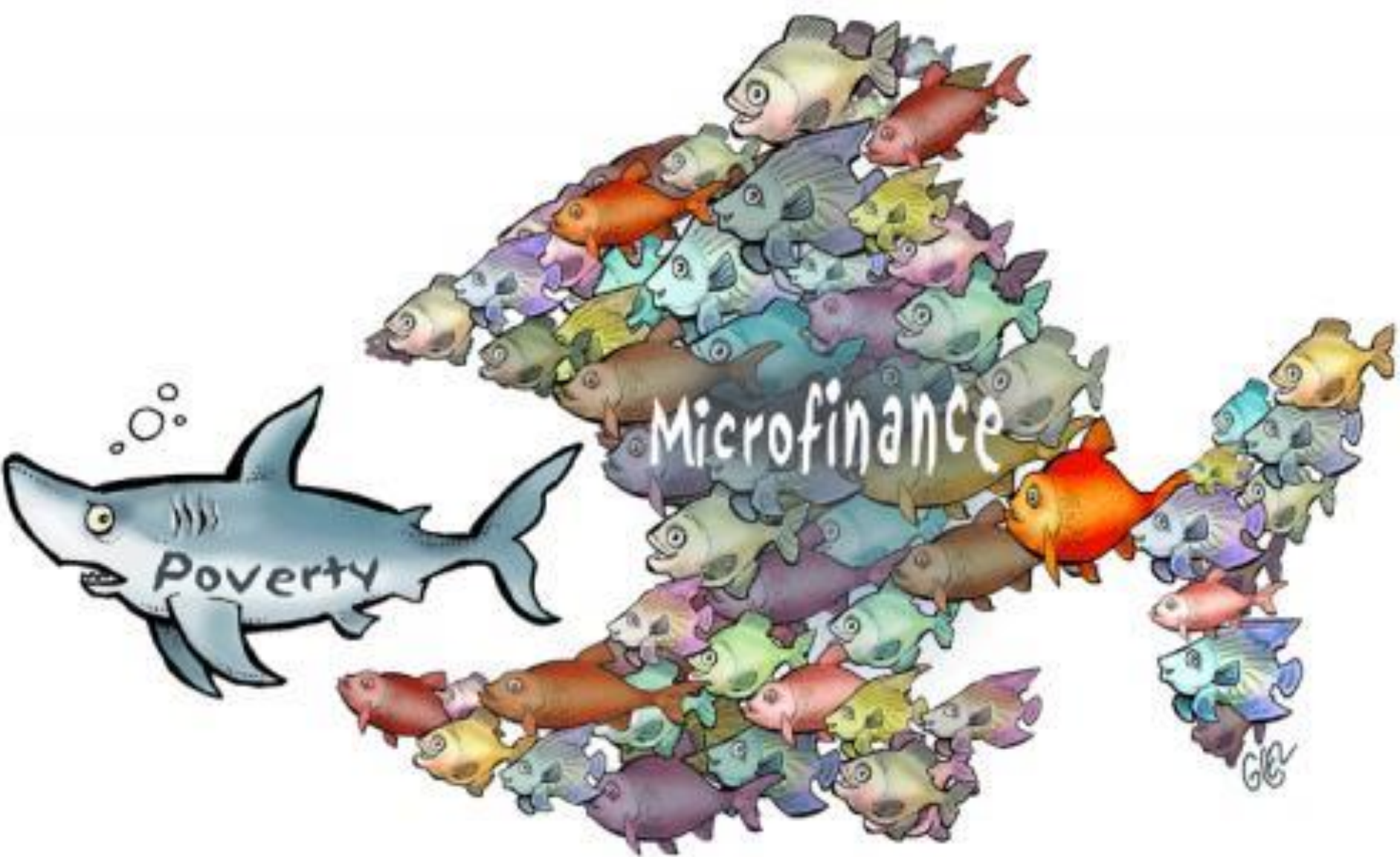
- Massive financial outlay on building financially sustainable ESSs all across the region
- All were supposed to survive by 'earning their keep on the market'
- All were supposed to support whatever businesses had the capacity to pay fees
- Parallel track was to starve and force all local government-driven structures and capacities to close
- No support whatsoever for a Northern Italy-style local industrial policy in the Balkans!

Results?

- Successive waves of ESS launched with much fanfare, **but all within a few years all went out of business** (Bateman, 2014)
- Most ESSs unable to earn a serious return – clients did not have the cash to pay them, or else did not trust them
- Those that did succeed to earn some cash were then privatised and soon abandoned original market (most went to work for the donors!)
- No focus at all on longer-term businesses, only those that could pay fees today, which contributed to rise of the ‘buy cheap, and sell dear’ local economy
- Meanwhile, local governments were ‘dumbed down’ and forcibly blocked from building their own capacities (e.g., through ROPs in Croatia....)
- Result across Balkans was a major deficit in crucial technical and advisory services when most desperately needed, **and hence no formal SME development of any real substance took place....**

2. Microcredit arrives in the Balkans

- Companion to ESSs was the microcredit model of Bangladesh fame
- Designed to address poverty through informal micro-enterprise development
- Lead taken by World Bank with its Local Initiatives Project (LIP) which absorbed \$US40 million
- Many other donors, private financiers and Microfinance Investment Vehicles (MIVs) arrived to pump more cash into the microcredit sector
- Bosnia goes on to become 2nd in world to Bangladesh in terms of microcredit penetration



Poverty

Microfinance

GLE

Results?

- Microcredit precipitated a major setback, especially in Bosnia (Bateman, Sinković and Škare, 2012) but also in Kosovo, Croatia, Montenegro:
 - Almost no sustainable microenterprise development or employment creation (exit and displacement impacts very high indeed)
 - Major boost to consumer spending, but created **mass over-indebtedness**
 - Creation of a tiny new financial elite supplying microcredit – this has destroyed trust, solidarity, cooperation, and contributed to massive inequality in the region
 - Deregulated environment precipitated ‘control fraud’ on a massive scale – in Bosnia Prizma, LOK, Synergija were frauds and collapsed
 - Informal sector has undermined development of the formal SME sector by temporarily grabbing market share
 - Gender **DIS**-empowerment on a grand scale, very much thanks to Women for Women International (*Žena za Žene*)
 - Major opportunity cost – scarce capital invested into unsustainable business areas – mainly simple trade – and NOT into formal SMEs.

Overall results of both measures

- Result across the Balkans economies has been to:
 - deindustrialise
 - primitivise
 - disconnect
 - informalise
- In sum, Balkan economies and societies have been helped to 'dumb down' not to 'scale up'

The promotion of ideology as 'best practice'

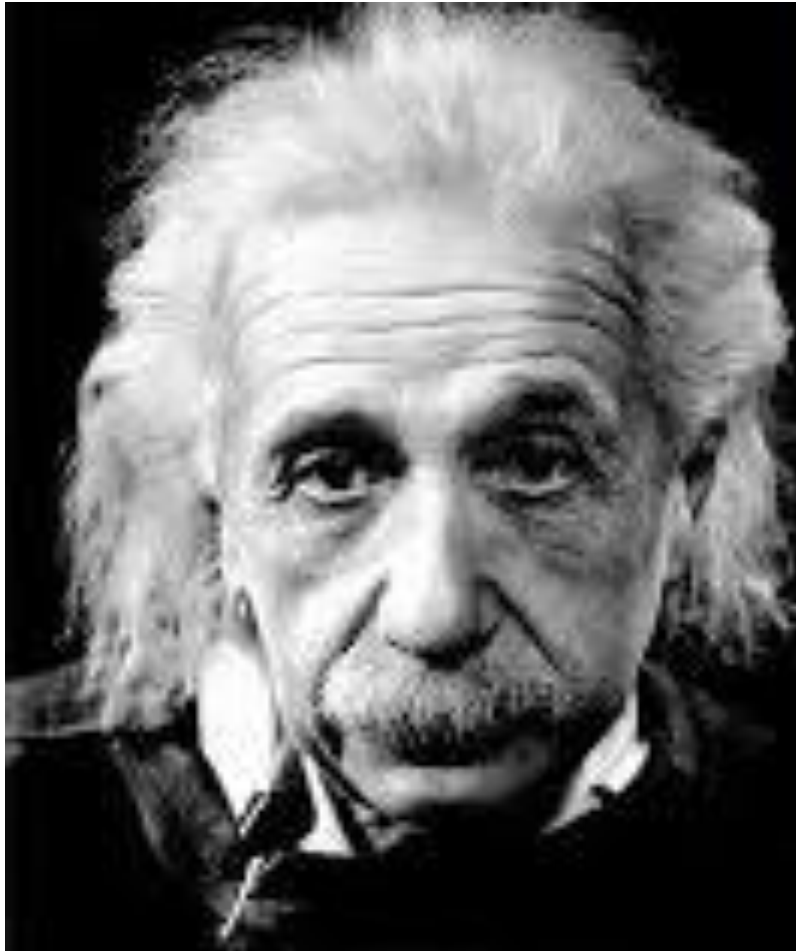
- The post-conflict transition in the Balkans was hugely ideologically-driven
- Cold War triumphalism ensured that 'the west' and its new neoliberal models would dominate the policy agenda
- World Bank aided by EBRD, USAID and others imparted enormous influence on Balkan governments and shaped the policy options to their own liking
- Local officials bought off with promotion and advancement if they signed up to the neoliberal policy machine; all heterodox officials side-lined
- Evaluations routinely rigged to ensure that nothing would stand in the way of the neoliberal policy juggernaut (e.g. World Bank evaluation of its LIP program).

Blame the victims!

- The World Bank and EBRD now mounting a concerted campaign to blame the ongoing economic disaster on the governments and peoples of the Balkans
- For example, November 5th Brookings blog by Head of World Bank in Balkans and colleagues sees only bad local officials in Bosnia but not bad (neoliberal) policies implemented in Bosnia.....
- No sense of responsibility even today for what happened
- and no willingness to genuinely examine the evidence since this might possibly suggest alternative (heterodox) approaches are required in the face of an unfolding depression...

Which leads us to Greece

- Similar package of local neoliberal reforms being implemented in Greece
 - EU and EIB have pronounced microcredit as the solution to unemployment in Greece
 - But recent reports shows that microenterprise EXIT is at historically high levels, which suggests the customer base is collapsing
 - EU and World Bank make the assumption that SME development in Greece is being blocked by regulations, so strip them out...
 - Yet NO evidence whatsoever that regulations have anything to do with the lack of SME development – it is demand-driven problem
 - EU is planning new market-driven advisory bodies on the assumption that entrepreneurs just need technical and advisory support
 - When, again, all the evidence is that demand is the problem, not the supply of qualified entrepreneurs or the quality of the surrounding infrastructure
- In other words, almost exactly the same neoliberal recipe that destroyed the Balkan economies is being blindly rolled out in Greece
- However, a different outcome is anticipated, which is the definition of..?



Insanity:

Doing the same thing over and over again and expecting different results.

Albert Einstein

The future?

- The Balkan economies today are in a depression, not so much a recession
- Genuinely learning from past mistakes in the Balkans is the first task
- Then learning from successes achieved elsewhere under similar system-change conditions – Emilia-Romagna, Southern Germany, Basque country, Taiwan, South Korea, Brazil, China, Vietnam, etc.....
- Disengaging from failed neoliberal policy is thus paramount.....
- Above all, we must learn that ‘state Institutions matter’ in development , especially at the LOCAL level
- Urgent need to abandon existing ideological constraints and construct local state and community-driven development institutions, not profit-driven ones...

Thanks for listening!

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